Issue Date April 2, 2007	
Audit Report Number 2007-NY-1004	

TO: Mirza Negron Morales, Director, Office of Public Housing, 2APH

Edgar Moore

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

SUBJECT: Family Self-Sufficiency and Section 8 Program Weaknesses at the City of Poughkeepsie, Poughkeepsie, New York

HIGHLIGHTS

What We Audited and Why

We audited the City of Poughkeepsie's (auditee) Family Self-Sufficiency and Section 8 programs at the request of the U.S. Department of Housing and Urban Development's (HUD) director of public housing, New York field office, who had concerns about missing program escrow accounts and the use of Section 8 administrative fee reserves.

The audit objectives were to determine whether the auditee (1) properly calculated and funded Family Self-Sufficiency program participant escrow account amounts, (2) administered the Family Self-Sufficiency program in accordance with HUD rules and regulations, and (3) adequately accounted for and disbursed Family Self-Sufficiency and Section 8 program funds.

What We Found

The auditee did not establish and properly fund escrow accounts for its 29 Family Self-Sufficiency program participants as required by regulations. Specifically, (1) an escrow account was not funded and credited with income, (2) escrow amounts were not calculated correctly, (3) escrow payments were made from Section 8 administrative fee reserves, and (4) escrow funds forfeited by participants who did not graduate from the program were not deposited to the auditee's operating reserve. As a result, nine current program participants are owed $81,641 plus interest, $53,288 is owed to the auditee's Section 8 administrative fee reserves for escrow disbursements made to participants from these reserves, and the auditee's operating reserve was deprived of $27,768 from forfeited escrow funds.

The auditee had weaknesses in the operation of its Family Self-Sufficiency program. It did not (1) comply with its program administrative plan pertaining to program size and administration, (2) always ensure that contracts of participation were properly executed, and (3) establish criteria to adequately measure participant accomplishments. Consequently, the effectiveness of the program may have been compromised.

Weaknesses also existed in the auditee's financial management controls over its Section 8 program. Specifically, the auditee (1) lacked a proper plan to allocate administrative expenses to the Section 8 program, resulting in $750,000 in unsupported and $32,400 in excessive administrative costs, and (2) did not maintain adequate accounting records for its Section 8 administrative fees.

What We Recommend

We recommend that the director of the New York City Office of Public Housing instruct the auditee to (1) fund its recently established bank account for participant-earned escrow amounts with $81,641 plus interest due current participants, (2) credit its Section 8 administrative fee reserve for the $53,288 disbursed to program participants, (3) credit its operating reserve for the $27,768 in escrow plus interest that was forfeited by prior participants, (4) institute controls to ensure that program administrative requirements are properly implemented, and (5) document the basis for the $750,000 in unsupported administrative expenses charged to the Section 8 program and reimburse $32,400 in excessive audit 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 discussed the contents of the report with the auditee during the audit, and provided them with a copy of the draft report on March 12, 2007. We held an exit conference on March 23, 2007, and received their written comments on March 27, 2007. The auditee generally agreed with our findings and has initiated corrective action to respond to the recommendations. 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 City of Poughkeepsie's (auditee) Office of Property Development administers the Section 8 Housing Choice Voucher program for residents of Poughkeepsie, New York. In May 1994, the auditee developed an action plan to administer the Family Self-Sufficiency program. The objective of the Family Self-Sufficiency program is to assist families in obtaining employment that will allow them to become self-sufficient; that is, to achieve economic independence. The program is voluntary and open to families participating in the Section 8 program who are unemployed or underemployed.

Families entering the Family Self-Sufficiency program execute a contract of participation and work with a case manager to develop a service plan, which details goals that, over a five-year period, will lead to self-sufficiency. These goals may include education, specialized training, job references, job payment activities, and career advancement objectives.

A key feature of the Family Self-Sufficiency program is that, although a participant's family share of the Section 8 rent resulting from increases in the family's earned income may change, the amount of the housing assistance payment requisitioned from the U.S. Department of Housing and Urban Development (HUD) is not changed. Rather, the excess housing assistance payment requisitioned should be deposited into an escrow account on behalf of the participant. Upon successful completion of the program contract, the participant is entitled to receive the excess housing assistance payment amount placed in escrow plus interest. To graduate successfully, participants must become employed, be free of welfare assistance for at least 12 months, and substantially achieve the goals in their service plan. If the participant does not successfully complete the contract or withdraws from the program, the amount in escrow plus interest is forfeited to the administering agency.

The auditee initiated its Family Self-Sufficiency program in 1997 with 29 participating families. Since that time, 16 participants have voluntarily withdrawn or been terminated from the program. During our audit period, there were 13 active participants, two of whom recently graduated from the program.

Our audit objectives were to determine whether the auditee (1) properly calculated and funded Family Self-Sufficiency program participant escrow amounts, (2) administered the Family Self-Sufficiency program in accordance with HUD rules and regulations, and (3) adequately accounted for and disbursed Family Self-Sufficiency and Section 8 program funds.

RESULTS OF AUDIT

Finding 1: The Auditee Did Not Properly Establish and Fund Escrow Account Amounts

The auditee did not establish and properly fund escrow accounts for its 29 Family Self-Sufficiency program participants as required by regulations. Specifically, (1) an escrow account was not funded and credited with income, (2) escrow amounts were not calculated correctly, (3) escrow payments were made from Section 8 administrative fee reserves, and (4) escrow funds forfeited by participants who did not graduate from the program were not deposited to the auditee's operating reserve. This occurred because the auditee was unfamiliar with the program regulations and therefore did not implement adequate controls. Consequently, nine current program participants are owed $81,641 plus interest, $53,288 is owed to the auditee's Section 8 administrative fee reserves for escrow disbursements made to participants from these reserves, and the auditee's operating reserve was deprived of $27,768 from forfeited escrow funds. In addition, two participants were overpaid $971 and one participant was underpaid $16 upon completing the program and receiving their escrow.

The Auditee Did Not Establish and Fund Participant Escrow Accounts

The auditee did not establish and fund an interest-bearing account for the receipt of participant escrow amounts. Regulations at 24 CFR [*Code of Federal Regulations*] 984.305(a) provide that Family Self-Sufficiency program participant escrow funds should be deposited into a single depository account invested in one or more HUD-approved investments. Based upon our review, the auditee established a bank account for escrow deposits but not until September 2006 after we brought it to their attention.

Escrow accounts should be funded with Section 8 housing assistance payment funds as participants' earned income increases. HUD program guidance in the Housing Choice Voucher Program Guidebook, 7420.10g, section 23.5, provides that when a program participant's earned income results in an increased total tenant payment, which reduces the housing assistance payment needed, the program administrator should not reduce its housing assistance requisition. Rather, the difference between the housing assistance payment requisitioned and that paid to the landlord represents the funds that should be credited to the participant's escrow account. However, the auditee reduced the amount of the housing assistance payment requisitioned from HUD and increased the tenant payment to the participants' landlord as rent, rather than setting aside these funds for participants' escrow. Consequently, no funds were available to fund the escrow accounts.

Auditee officials stated that they were unaware that housing assistance payment requisitions should not have been reduced. Nevertheless, in June 2006, the auditee began to properly requisition funds from HUD as it appropriately drew down $2,547 to fund its escrow account. However, the auditee did not place these funds into its escrow bank account until September 2006.

Our review of case files for 13 active participants disclosed that $120,640 plus interest (see appendix C) should have been deposited as escrow for 11 of these participants through June 30, 2006. The remaining two participants had not yet earned any escrow. To obtain the correct amount of escrow that needed to be funded, we reduced the $120,640 (Office of Inspector General (OIG)-calculated June 2006 balance) by the above $2,547 that the auditee deposited in September 2006 and $37,866 that was disbursed from the auditee's Section 8 administrative fee reserves related to 2 of 11 participants who graduated from the program during the audit period (see footnotes 1 and 2 of appendix C). In addition, while the auditee requisitioned funds for escrow for September through November 2006, the required deposits for these months, totaling $1,414, were never made to the auditee's escrow account; therefore, we added these funds to the balance. Accordingly, the remaining nine active participants' escrow bank accounts should be funded for $81,641 ($120,640 - $2,547 - $37,866 + $1,414).

The Auditee Did Not Credit Escrow Accounts with Interest

HUD program guidance in the Housing Choice Voucher Program Guidebook, 7420.10g, section 23.5, requires that interest be credited to each participant's account at least annually. While the auditee maintained an individual ledger account to track the amount that each participant should have earned in escrow, it did not credit these accounts with interest that should have been earned on the amounts. Therefore, the above active program participant balance, amounts disbursed to prior participants, and amounts forfeited should be credited with interest earned.

The Auditee Incorrectly Calculated Escrow Amounts

While the auditee did not establish and fund participant escrow balances, it did maintain records to track participants' escrow balances. However, it computed escrow balances incorrectly for 17 of the 29 participant case files reviewed. Ten participant escrow accounts were understated by $4,907, and seven participant escrow accounts were overstated by $18,173 as of June 30, 2006 (see appendix C). These included a participant who was overpaid $960 upon transferring to another entity's program and two recent graduates, one of whom was overpaid $11 and another who was underpaid $16, resulting in a net erroneous disbursement of $955.

These errors were attributed to control weaknesses that caused the auditee to use incorrect figures and perform mathematical errors when calculating the total tenant payment from which the escrow credit amount is derived. Examples of these errors included incorrectly counting sporadic income as earned income, failing to reconcile a discrepancy between income status as reported by the participant and that obtained from a verification of employment, and overlooking changes in income.

Administrative Reserves Used to Pay Escrow and Operating Reserves Were Deprived of Forfeited Funds

Since the auditee did not requisition additional subsidy to fund an escrow account, disbursements for interim or final escrow distributions to program participants were made from the auditee's Section 8 administrative fee reserves. These disbursements totaled $53,288, consisting of $15,422 interim distributions to five participants and $37,866 disbursed to two graduates as described above. Accordingly, the auditee needs to replace these funds into its administrative fee reserve account.

Because it did not properly fund an escrow account, the auditee also did not appropriately administer forfeited funds. Regulations at 24 CFR [*Code of Federal Regulations*] 984.305 provide that if a participant withdraws or is terminated from the Family Self-Sufficiency program, any escrow funds accumulated are forfeited and credited to the administering agency's operating reserve account and counted as other income. For 14 of 16 case files reviewed, related to inactive participants who were either terminated or voluntarily withdrew from the program, escrow amounts of $27,768 plus interest should have been earned while these participants were in the Family Self-Sufficiency program. Of the remaining two participants, one participant was paid an interim escrow amount, and the other participant did not realize an increase in income sufficient to earn any escrow. Consequently, the $27,768 plus interest should have been transferred to the auditee's operating reserve account.

Conclusion

Control weaknesses in the operation of its Family Self-Sufficiency program caused the auditee to not establish and fund participants' escrow accounts and to incorrectly calculate escrow amounts earned. The establishment and funding of these accounts should have provided escrow funds of $81,641 plus interest to currently active participants, $53,288 should not have been disbursed from the auditee's Section 8 administrative fee reserves, and $27,768 plus interest should have been credited to the auditee's operating reserve account for amounts forfeited by terminated and withdrawn participants during the audit period.

Recommendations

We recommend that the director of the New York Office of Public Housing instruct the auditee to

1A Fund the escrow account for the $81,641 plus interest due current participants as of November 2006. These payments should come from nonfederal sources.

1B Develop procedures that will ensure that interest earned is properly credited to active participant escrow amounts on at least a quarterly basis.

1C Recoup $971 ($960 + $11) from the overpaid participants and reimburse $16 to the underpaid participant.

1D Fund its administrative fee reserves for the $53,288 disbursed as interim and final payouts to participants. These payments should come from nonfederal sources.

1E Fund its operating reserve for the $27,768 plus interest in escrow funds it was deprived of related to the amounts forfeited by the 14 terminated and withdrawn participants. These payments should come from nonfederal sources.

1F Strengthen controls to ensure that escrow accounts are properly calculated and funded for current and future Family Self-Sufficiency program participants.

Finding 2: The Auditee's Family Self-Sufficiency Program Had Administrative Weaknesses

The auditee had weaknesses in the operation of its Family Self-Sufficiency program. It did not (1) comply with its program administrative plan pertaining to program size and administration, (2) always ensure that contracts of participation were properly executed, and (3) establish criteria for measuring participant accomplishments. These deficiencies occurred because the auditee did not implement controls over the operation of its program to ensure compliance with HUD requirements. Consequently, the effectiveness of the program may have been compromised.

Program Administrative Requirements Were Not Met

The auditee did not comply with various administrative requirements of the Family Self-Sufficiency program. It did not maintain the required number of participants in the program, establish a program coordinating committee, and provide participants with a full accounting of their escrow account balances.

The auditee's Family Self-Sufficiency program action plan, dated May 31, 1994, provided that the program would serve 25 participants. In addition, when the auditee contracted on May 29, 1997, with Hudson River Housing, a nonprofit agency, to serve as program coordinator, section A.1 of the contract specified that the contract administrator would provide intensive case management services to 25 households that met the eligibility standards for the program. However, during years 2000 through 2006, the number of participants ranged from a low of eight in 2000 to a high of 18 in 2004, and at no time during our audit period, did it serve 25 participants.

The current program coordinator, who is the Section 8 administrator, stated that maintaining the required program size was difficult because of a lack of interest among Section 8 recipients. While HUD Housing Choice Voucher Guidebook, section 23.2, entitled "Lack of Family Interest," states that every effort must be made to recruit participants for the program and that an exception to the number of required participants will not be granted due to a lack of family interest, a waiver can be sought. However, there was no evidence that the auditee requested such a waiver. Consequently, the auditee's program continuously operated below its intended capacity without evidence of a waiver for such status.

The auditee did not renew its program coordinator contract with Hudson River Housing after its expiration on December 31, 2005, because funds were not available in 2006 for the program coordinator grant. Since that time, the auditee's Section 8 program administrator has been serving as the

Family Self-Sufficiency program coordinator. However, the program's action plan provided that the Section 8 program administrator would assume responsibility for the administration of the program and that a family service coordinator would be retained as a consultant to manage the program's day-to-day operations. Accordingly, since the program coordinator's contract was not renewed, the current staffing does not meet the plan's requirements.

HUD Housing Choice Voucher Guidebook, 7420.10g, section 23.3, requires that a program committee be established to assist in securing commitments of public and private resources for developing and implementing the Family Self-Sufficiency program. This committee should include representatives from local government; Job Training Partnership programs funded by the U.S. Department of Labor; and service organizations such as welfare and employment agencies, public/private education or training institutions, child care providers, and private businesses. The auditee did not establish such a committee. Therefore, it lacked access to potentially valuable input that the various representatives required to be part of such a committee could have provided.

Further, the auditee did not report escrow balances to the participants as required. HUD Housing Choice Voucher Guidebook, 7420.10g, section 23.5, states that a report must be made to each participant at least annually on the escrow account, including the balance at the beginning of the reporting period, the amount credited during the period, any deductions made from the account, the amount of interest earned on the account, and the total in the account at the end of the reporting period. While participants were informed of the status of their accounts at least annually, the status did not include any applicable interest and was not in writing unless the participant requested it. Therefore, the auditee did not provide a full accounting of escrow amounts as required.

Participant Contracts Were Not Always Properly Executed

Contracts of participation were not executed within 120 days of the households' most recent annual or interim certification for 10 participants. This was caused by weaknesses in the auditee's program operations, permitting contract executions without timely certifications. HUD Housing Choice Voucher Program Guidebook, 7420.10g, section 23.4, states that the contract of participation must be executed no more than 120 days after the household's most recent annual or interim reexamination. In one case, the effective date on the HUD Form 50058 was March 1, 1999; however, the effective date of the contract of participation was October 1, 1999, which is over the 120-day limit. In another case, an interim Section 8 recertification was not completed before the start of the contract on April 1, 2001. The auditee stated that a recertification was not done because there were no changes in the participant’s wages. However, there was no documentation in the file to indicate that the participant’s wages had not changed.

In addition, the auditee extended participant contracts without receiving a timely written request from participants or documenting such extensions in writing. Regulations at 24 CFR [*Code of Federal Regulations*] 984.303, entitled “Letter of Contract Extension,” state that the term of a contract of participation may be extended for a period not to exceed two years for any participant that requests an extension of the contract in writing, provided that good cause exists for granting the extension. For one participant, the auditee received and granted a written request for a one-year extension. However, the request was dated August 2, 2005, which was more than a year after the participant’s expected graduation date of September 30, 2004. In another case, the auditee extended the contract of participation two years without formal written documentation. The original expiration date of the contract was March 31, 2006, and the contract was extended to March 31, 2008. The Section 8 coordinator stated that extensions were generally granted verbally.

Criteria to Measure Participant Progress Were Not Specified

The auditee did not develop specific criteria against which to measure participant progress toward self-sufficiency. As a result, participants appear to have been granted extensions of their contracts without good cause. As stated above, regulations provide that an extension for up to two years may be granted for “good cause.” The guidebook states that “good cause” includes circumstances beyond the control of the participant such as serious illness or involuntary loss of employment.

All of the four extensions granted lacked documentation of good cause. The justifications given were for paying delinquent debts, needing more time to become self-sufficient and achieve stated goals, and being self-sufficient by the graduation date of the contract.

Conclusion

The auditee had administrative weaknesses in the operation of its Family Self-Sufficiency program because it did not implement controls over the operation of its program to ensure compliance with HUD requirements. Consequently, the effectiveness of the program may have been compromised.

Recommendations

We recommend that the director of the New York Office of Public Housing instruct the auditee to

2A. Strengthen controls over program administration to ensure that the required program size is maintained and if not, that a waiver request is filed with HUD.

2B. Establish a program coordinating committee as required and assess the need for a program coordinator. If it is determined that a program coordinator is not needed, amend the action plan to reflect that determination.

2C. Provide a complete accounting of participant escrow account balances in writing at least annually.

2D. Develop procedures to ensure that contracts of participation are executed no more than 120 days after the household's most recent annual or interim reexamination.

2E. Establish criteria upon which to grant extensions of participants' contract terms and ensure that written requests to extend contracts are obtained from participants.

Finding 3: The Auditee's Section 8 Program Had Financial Management Control Weaknesses

There were weaknesses in the auditee's financial management controls over its Section 8 program. The auditee lacked support for administrative expenses allocated to the Section 8 program and did not maintain adequate accounting records to reconcile Section 8 administrative expense balances to those reported to HUD. These weaknesses occurred because the auditee did not have adequate controls to ensure that it followed HUD procedures. As a result, the Section 8 program was charged $750,000 in unsupported costs and $32,400 in unreasonable expenses.

Allocation of Administrative Expenses Was Not Supported

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. However, the auditee did not maintain an allocation plan to adequately support administrative expenses charged to the Section 8 program. During calendar years 2000 through 2005, the auditee charged $750,000 ($125,000 annually) to the Section 8 program as indirect expenses. An auditee official stated that this amount included a variety of costs, including an allocation of auditee officials' salary and utility expenses. However, there was no basis for the allocation, and the official acknowledged that the amount was arbitrary. Accordingly, since we were not provided with adequate supporting documentation, the $750,000 is deemed unsupported.

During the above-mentioned six-year period, the auditee also charged $54,000 to the Section 8 program for the cost of its annual financial audit ($9,000 annually x 6 years). The annual cost of the financial audit was $45,000; therefore, the auditee allocated 20 percent of this cost to the Section 8 program. However, it did not provide an adequate basis for allocating 20 percent of the cost to the Section 8 program.

The Section 8 program accounted for approximately 8 percent of the auditee's total revenue. Therefore, a more realistic allocation should have been $3,600 annually ($45,000 annual cost x 8 percent) or a total of $21,600 during the six-year period ($3,600 x 6 years). Accordingly, the additional $32,400 charged to the Section 8 program for the cost of the financial audit appears to be unreasonable ($54,000 less $21,600) and should be reimbursed.

In addition, officials of HUD's Office of Public Housing wrote to the auditee on May 25, 2006, expressing concern about the audit coverage for the Section 8 program for calendar year 2005. However, as of November 2006, the auditee had not satisfactorily responded, and the final audit for calendar year 2006, which was due September 30, 2006, had not been finalized.

Weaknesses in Accounting for Administrative Fee Reserves

The auditee's accounting for Section 8 administrative fee reserves also had weaknesses. Records were not maintained in accordance with HUD guidance and did not reconcile to information reported to HUD. HUD Housing Choice Voucher Guidebook, 7420.10g, chapter 20, section 2, provides that an administrative fee reserve account should be maintained and credited with the amount by which the total administrative fees earned and interest earned on the reserve account exceeds the actual administrative expenses incurred during any given fiscal year. The guidebook further provides that a complete and accurate set of books and supporting records should be established and maintained so that speedy and effective auditing is possible. The auditee did not maintain an administrative fee reserve account as part of its general ledger and could not readily identify the amount of such reserves in its bank records.

In addition, as shown in the table below, expenses charged to the Section 8 administrative fee reserves did not reconcile to those reported to HUD. Consequently, we were unable to determine whether Section 8 administrative fees were used for other than allowable Section 8 purposes.

Fiscal year	Expenses in books	Expenses reported to HUD	Over (under)-reporting
2005	$ 416,071	$ 406,136	($9,935)
2004	432,239	489,351	57,112
2003	398,084	420,775	22,691
2002	435,262	421,587	(13,675)
2001	434,545	387,122	(47,423)
2000	486,403	305,345	(181,058)
Total	$2,602,604	$2,430,316	($172,288)

Further, the administrative fee reserve balance reported to HUD did not reconcile to the activity reported to HUD. For instance, based upon the difference between the amount of expenses reported to HUD and the fees disbursed to the auditee, the auditee should have had an administrative fee reserve balance of $105,594 for program year 2005. However, the auditee reported a balance of $594,343 to HUD. Thus, the auditee neither provided a complete accounting for its administrative fee reserves nor provided support for the balances reported to HUD.

Conclusion

The auditee lacked support for administrative expenses allocated to its Section 8 program as reported to HUD. As a result, the Section 8 program was charged $750,000 in unsupported costs and $32,400 in unreasonable expenses.

Recommendations

We recommend that the director of the New York Office of Public Housing instruct the auditee to

3A Document the basis for the $750,000 in unsupported administrative expenses charged to the Section 8 program and reimburse any amounts determined to be unreasonable.

3B Reimburse the Section 8 program for the $32,400 in excessive/unreasonable audit costs.

3C Develop controls to establish a cost allocation plan that ensures administrative costs are adeqautely supported, and obtain approval from the cognizant auditee agency for any indirect costs charged to the Section 8 program.

3D Strengthen controls to ensure that required audits are submitted in a timely manner, and respond to the HUD field office's concern about the scope of Section 8 audit coverage for calendar year 2005 and provide an explanation for the delay or promptly submit the Section 8 program audit for calendar year 2006 to HUD.

3E Provide a reconciliation for the difference between the Section 8 administrative fee expenses reported to HUD and disbursed according to its records.

3F Develop procedures that will ensure that accounting records are properly maintained to account for Section 8 adminsitrative fees in accordance with HUD guidance.

SCOPE AND METHODOLOGY

Our audit encompassed the auditee's administration of its Family Self-Sufficiency program and part of its Section 8 program during the period January 2000 through June 30, 2006. We extended the period as necessary to follow up on outstanding issues.

To accomplish our objectives, we reviewed applicable laws and regulations pertaining to the auditee's Family Self-Sufficiency and Section 8 Housing Choice Voucher programs. We reviewed HUD program requirements for the Family Self-Sufficiency program at 24 CFR [*Code of Federal Regulations*] Part 984 and HUD's Housing Choice Voucher Guidebook, 7420.10.

We obtained and analyzed the auditee's Family Self-Sufficiency program plan, dated May 31, 1994, and its contract for a program coordinator with Hudson River Housing. We also reviewed the auditee's financial records, such as audited financial statements for the periods ending December 31, 2002 through 2005, general ledgers, bank statements, and cancelled checks pertaining to the Family Self-Sufficiency program and Section 8 administrative fee expenses.

We interviewed the auditee's finance and program staff, to obtain an understanding of its Family Self-Sufficiency program operations and controls, and obtained information from HUD headquarters and field office staff relative to program regulations. We also interviewed the contract program coordinator.

We reviewed 29 Family Self-Sufficiency program participant files and records maintained by the auditee, consisting of 13 active and 16 inactive program participants during our audit period. For each of the participants, we verified that the participant was eligible for the program and recalculated the amount of escrow that each participant should have earned. When applicable, we obtained verifications of employment to ensure that the total tenant payment was accurate. We also reviewed the participants' files to determine the type of services provided to the participants, that service plan extensions were properly granted and documented, and that terminations and escrow payouts were in accordance with regulations.

In addition, we examined part of the Section 8 program; we selected a nonstatistical sample of Section 8 administrative fee disbursements to review and assess the reasonableness and allowability of the expenses.

We conducted our audit at the City of Poughkeepsie's Office of Property Development in Poughkeepsie, New York, during the period June through November 2006. We performed our review in accordance with generally accepted government auditing standards.

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- 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 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 item is a significant weakness:

- The auditee lacked adequate procedures and related controls to ensure that escrow funds were established, funded, and properly calculated and to ensure that the administrative and financial requirements of the Family Self-Sufficiency and Section 8 programs were properly implemented (see findings 1, 2, and 3).

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better use 4/
1A				$81,641
1C				$53,288
1D				$27,768
1E	$971			
3A		$750,000		
3B			$32,400	
Total	$971	$750,000	$32,400	$162,697

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/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

4/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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, if the auditee establishes the escrow account and reimburses or credits its Section 8 administrative fee reserves from nonfederal funds and establishes proper procedures for funding the escrow, it will have funds available to pay graduating participants and increase its operating reserves and will not unnecessarily deplete its administrative fee reserves.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

THE CITY OF POUGHKEEPSIE
NEW YORK

JAMES M. WOJTOWICZ, CPA
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March 27, 2007

U.S. Department of Housing & Urban Development
Office of Inspector General
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Attn: Edgar Moore, Regional Inspector General for Audit - New York/ New Jersey

Dear Mr. Moore:

Please find our city's responses to the audit draft dated March 12, 2007 covering the City of Poughkeepsie's Family Self Sufficiency Program.

Finding 1: The Auditee did not properly establish and fund escrow account amounts.

Comment 1

Response: All Family Self Sufficient participant accounts are now properly established. Effective with the June 2006 monthly period a check is produced each month and deposited into an interest bearing account supported by the individual participants name and proper city contribution. Said escrow accounts are now funded with Housing Assistance Payment (HAP) funds as the program participants' earned income increase. We are now properly following program guidelines as our requisitioned HAP remains the same, the participant's payment to the landlord is increased accordingly and the difference is now being properly credited to the participant's individual escrow account at Riverside Bank ([redacted] in the City of Poughkeepsie. Since the discovery by the City that its FSS program needed attention, administration has been corrected and strengthened under the direction of [redacted] the City's Development Director. (See response to Finding 2)

Comment 2

We are currently working on reconciling the current participant's escrow funding prior to our corrective action taken in June 2006. It is our opinion and expectation that the funding of these accounts will be accomplished by amending our HAP requisitions to HUD with the correct amounts and/or from our administrative fee reserves, not from nonfederal sources as the draft audit report indicates. We continue to value the support of [redacted] Director of Section 8 Voucher division for the New York Region who is currently assisting in this endeavor. It is important for us to note that these participant escrow accounts, properly established, would have been established using federal funds that were available to the city.

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Our internal controls have now been strengthened; I am now responsible for the final review ensuring that all escrow accounts are properly funded and calculated. Earned interest is now being allocated out to the individual participants on a quarterly basis as our procedures have now been delineated.

Finding #2: the Auditee's Family Self- Sufficiency Program Had Administrative Weaknesses.

Response to Recommendations:

2A) *Strengthen controls over program administration to ensure that the required program size is maintained and if not, that a waiver request is filed with HUD.*

Comment 2

The City of Poughkeepsie has appointed a Family Self-Sufficiency Program Coordinator. [redacted] is currently on staff in a management position as Director of Property Development. [redacted] will assume the coordination of FSS in addition to other duties that include the city's affordable home ownership programs. The Section 8 Supervisor, [redacted] and [redacted] both report directly to the Development Director. With his oversight, we expect to strengthen the program and institute the necessary controls.

In terms of number of participants, we anticipate reaching the required participant level through a direct outreach to Section 8 recipients. If the City finds that the program size cannot be achieved, it will formally request a waiver from HUD.

2B) *Establish a program coordinating committee as required and assess the need for a program coordinator. If it is determined that a program coordinator is not needed, amend the action plan to reflect that determination.*

The City of Poughkeepsie will establish a Program Coordinating Committee; drawing from both the public and private resources as required by program regulations. Membership will include representation from the local government and other private organizations.

The City recognizes the need for and intends to continue the position of Program Coordinator as long as the FSS program is active. The appointment of [redacted] as FSS Program Coordinator will surely strengthen the administration of the FSS Program.

2C) *Provide a complete accounting of participant escrow account balances in writing at least annually.*

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The City of Poughkeepsie will provide to all FSS participants a written accounting of their escrow accounts with accrued interest on an annual basis.

2D) *Develop procedures to ensure that contracts of participation are executed no more than 120 days after the household's most recent annual or interim re-examination.*

Comment 2

The City of Poughkeepsie will implement a systematic procedure so that all contracts will be executed within a timely fashion (no more than 120 days) from monthly or interim recertification. Having the administration of Section 8 and the FSS Program Coordinator working within the same city department will enable this procedure to be followed closely.

2E) *Establish criteria upon which to grant extensions of participant's contract terms and ensure that written requests to extend contracts are obtained from participants.*

The City of Poughkeepsie will implement standard criteria to review prior to granting an extension for any FSS participants. All FSS files will be prepared in an organized manner with written documentation for all extension requests. All correspondence between the FSS Coordinator and participant will be documented and incorporated into the file for improved record monitoring

Finding #3: The Auditee's Section 8 Program had Financial Management Control Weaknesses.

Comment 2

Response: During the six-year audit period our city charged $125,000 per year (totaling $750,000) for indirect program expenses. These expenses ranged widely from utility costs to reasonable allocation of City official salaries. The allocation (at $125,000 per year) has been in place since 1997, with no increase for CPI. We will in the current fiscal year request an outside CPA firm to prepare a written allocation plan that will become our standard. We look forward to sharing this plan with you.

The audit fee charged ($9,000 per year) also dates back to the previous 1997 administration. This amount will also be adjusted accordingly based on the independent allocation plan as stated above. The $9,000 appears reasonable as our independent audit does include an exhaustive review of our city's Section 8 program. Based on these prevailing rates the $9,000 breaks down to approximately two and ½ weeks of audit time. Our 2005 audit has now been finalized and copies will be filed appropriately with [redacted] of HUD's office of Public Housing.

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Comment 3

The city accurately reports allowable expenses charged directly to the Section 8 Program. All information is taken from the City's general ledger system that accounts for our entire $60,000,000 city budget. For the last prepared and submitted HUD form, 52681 (Voucher for Payment of Annual Contributions and Operating); the total expenses equaled the exact amount off of the general ledger as follows:

Appropriation	$
A) Office Equipment	1,866
B) Office- General	2,246
C) Office- Printing	431
D) Office- Postage	3,171
D) Office –Telephones	2,052
E) Employee Travel	33
F) Employee Training & Development	278
G) Rent/Lease of Moor Vehicle	2,553
H) Rent/Lease of Equipment	1,443
I) Contracted Services- Legal	12,028
J) Audit Fee- CPA	9,000
K) Contracted Services- Computer	2,520
L) Contracted Services- Other (FSS Coordinator)	42,730
M) Indirect Program Expense Allocation	125,000
N) Direct Salary Allocation	284,000
Total 2004 Appropriations reported to HUD:	**$489,351**

May I suggest that if you need any additional information that you please contact me.

Thank you for your attention.

Very truly yours,

James M. Wojtowicz
Commissioner of Finance

Cc: Mayor Nancy Cozean
Development Director Murphy
City Administrator Marquette

Appendix B

OIG Evaluation of Auditee Comments

Comment 1 The auditee took action in June 2006 to correctly requisition housing assistance payments from HUD in order to have funds available to properly fund participants' escrow accounts. However, the funds were not always deposited to the account established for such purposes. Accordingly, HUD needs to ensure that the auditee has implemented procedures to properly deposit the funds to participants' accounts.

Comment 2 The auditee's comments are responsive to our recommendations.

Comment 3 The auditee states that it accurately reported expenses charged to the Section 8 program. Specifically, it reported $489,351 as Section 8 administrative expenses for fiscal year 2004 on the HUD form 52681. However, this figure includes a charge entitled "Contracted Services–Other (FSS coordinator)," which was funded by a separate grant and reported independently, and an amount entitled "Direct Salary Allocation," which was a budgeted amount rather than an actual expense charged. Further, the auditee did not provide a reconciliation for fiscal years 2000 through 2003 and 2005. Therefore, the auditee needs to provide HUD with a reconciliation of its Section 8 administrative expenses claimed and develop procedures to properly account for and report these expenses.

Appendix C

SCHEDULE OF PARTICIPANT ESCROW BALANCES AS OF JUNE 30, 2006

Participant	Status	Auditee balance	OIG balance	Understated	Overstated
1	Active	$ 2,361	$ 2,361	$ -0-	
2	Active	35,296	35,496	(200)	
3	Active	28,814	1/ 30,724	(1,910)	
4	Active	-0-	-0-	-0-	
5	Active	15,530	15,587	(57)	
6	Active	- 0-	377	(377)	
7	Active	8,835	8,451		384
8	Active	6,189	6,261	(72)	
9	Active	23,187	2/ 7,147		16,040
10	Active	10,220	10,170		50
11	Active	3,858	3,582		276
12	Active	488	484		4
13	Active	-0-	- 0 -	-0-	
Total active		$134,778	$120,640	($2,616)	$16,754
1	Inactive	$ 1,409	$ 1,409	$ -0-	
2	Inactive	9,693	9,875	(182)	
3	Inactive	3/ 5,944	4,984		960
4	Inactive	24	24	-0-	
5	Inactive	1,417	1,417	-0-	
6	Inactive	56	76	(20)	
7	Inactive	7,755	7,767	(12)	
8	Inactive	1,061	1,061	-0-	
9	Inactive	797	338		459
10	Inactive	1,071	1,071	-0-	
11	Inactive	998	998	-0-	
12	Inactive	1,365	1,365	-0-	
13	Inactive	290	290	-0-	
14	Inactive	-0-	- 0 -	-0-	
15	Inactive	-0-	1,199	(1,199)	
16	Inactive	-0-	878	(878)	
Total inactive		$ 31,880	$ 32,752	$2,291	$1,419
Grand Total				($4,907)	$18,173

1/ Participant was paid $30,708, a $16 underpayment, upon graduation.
2/ Participant was paid $7,158, an $11 overpayment, upon graduation.
3/ Participant received a $5,944 interim payout, a $960 overpayment, and transferred to another authority.