



City of New York

OFFICE OF THE COMPTROLLER

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FINANCIAL AUDIT

Tina Kim

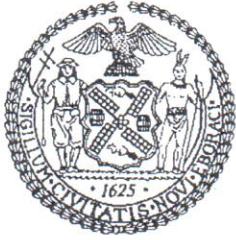
Deputy Comptroller for Audit

Audit Report on the Department of
Housing Preservation and
Development's Administration of Its
Family Self-Sufficiency Escrow Account

FM12-082A

October 19, 2012

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
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NEW YORK, N.Y. 10007-2341

John C. Liu
COMPTROLLER

October 19, 2012

To the Residents of the City of New York:

My office has audited the Housing Preservation Development's (HPD) administration of its Family Self-Sufficiency (FSS) account to determine whether HPD administered the account in accordance with applicable rules and regulations. We audit entities such as HPD as a means of ensuring that they comply with established policies and procedures.

The FSS program is funded by the federal government through the Department of Housing and Urban Development (HUD) and is designed to assist families in obtaining employment that will allow them to become economically independent and reduce their reliance on Section 8 subsidies received through HPD. By increasing earned income and paying a higher portion of rent, a participant reduces reliance on Section 8 payments. However, the amount of Section 8 payments, also known as Housing Assistance Payments (HAP), requisitioned for the participant does not change. The HAP funds not used by HPD, due to the increased earnings of the participant, are deposited into an interest-bearing subaccount on behalf of the participant. In August 2009, the New York City Department of Finance approved HPD's request to replace its existing FSS checking account with a new interest-bearing account within the same institution. According to HPD records, as of October 2010, the FSS account had a balance of \$2.1 million.

The audit found that HPD processed disbursements in accordance with its bank account procedures and performed the requisite bank reconciliations in a timely manner. However, HPD does not ensure that subaccounts are established and maintained for program participants. Furthermore, HPD does not properly track deposits to ensure that those subaccounts reflect accurate and up-to-date totals. As a result, HPD requisitioned funds for participants who were no longer in the program, which contributed to the excessive and unnecessary accumulation of funds in the account. Funds that are improperly requisitioned and held in escrow could affect HPD's program renewal needs and could possibly lead to the misuse of program funds.

The results of the audit have been discussed with HPD officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,



John C. Liu

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the Department of Housing Preservation and Development's Administration of Its Family Self-Sufficiency Escrow Account

FM12-082A

AUDIT REPORT IN BRIEF

The Family Self Sufficiency Program (FSS) is funded by the federal government through the Department of Housing and Urban Development (HUD) and is designed to assist families in obtaining employment that will allow them to become economically independent and reduce their reliance on Section 8 subsidies received through the Department of Housing Preservation and Development (HPD).¹ Families enrolled in the program execute a five-year contract and work with an HPD case manager to develop a plan that outlines the goals and responsibilities of both parties. By increasing earned income and paying a higher portion of rent, a participant reduces reliance on Section 8 payments. However, the amount of Section 8 payments, also known as Housing Assistance Payments (HAP), requisitioned for the participant does not change. The HAP funds not used by HPD, due to the increased earnings of the participant, are deposited into an interest-bearing subaccount on behalf of the participant. Participants who complete their goals receive the balance in their subaccount upon graduating from the program.²

In August 2009, the New York City Department of Finance approved HPD's request to replace its existing FSS checking account with a new interest-bearing account within the same institution. The new savings account included the aforementioned subaccounts which allowed HPD to track each program participant. According to HPD records, as of October 2010, the FSS account had a balance of \$2.1 million. In February 2012, HPD closed the FSS bank account and transferred the \$2.9 million balance to a new bank because the former was no longer on the City's designated bank list.

Audit Findings and Conclusion

HPD processed disbursements in accordance with its bank account procedures and performed the requisite bank reconciliations in a timely manner. However, HPD does not ensure that subaccounts are established and maintained for program participants. Furthermore, HPD does not properly track deposits to ensure that those subaccounts reflect accurate and up-to-date

¹ Section 8 provides funding for rent subsidies for eligible low-income families.

² HPD is the custodian of the account. Program participants do not have direct access to the funds.

totals. As a result, HPD requisitioned funds for participants who were no longer in the program, which contributed to the excessive and unnecessary accumulation of funds in the account. For example, on June 18, 2010, HPD had to transfer \$4.3 million in excess funds from the FSS account to its HAP fiduciary account. Funds that are improperly requisitioned and held in escrow could affect HPD's program renewal needs and could possibly lead to the misuse of program funds.

Audit Recommendations

HPD should:

- Review all subaccounts to determine whether the participants are still in the program and make any necessary adjustments.
- Transfer all funds unassigned, held in reserve, or forfeited to the HAP fiduciary account in accordance with HUD guidelines.
- Update its bank account procedures to reflect the change in banking institutions.
- Comply with HPD procedures by reviewing deposits on a monthly basis to ensure that funds were applied in the correct amount to the correct subaccounts.

Department Response

In its response, HPD did not dispute the audit's findings and agreed with all four recommendations.

INTRODUCTION

Background

HPD is the largest municipal developer of affordable housing in the nation. Since 1987, HPD has provided over \$8.7 billion to support the repair, rehabilitation, and new construction of housing units. HPD also protects the existing housing stock and expands housing options for New Yorkers, improving the availability, affordability, and quality of housing in New York City.

The FSS program is funded by the federal government through HUD and is designed to assist families in obtaining employment that will allow them to become economically independent and reduce their reliance on Section 8 subsidies received through HPD. The program is voluntary and is open to Section 8 recipients. Families enrolled in the program execute a five-year contract and work with an HPD case manager to develop a plan that outlines the goals and responsibilities of both parties. By increasing earned income and paying a higher portion of rent, a participant reduces reliance on Section 8 payments. However, the amount of Section 8 payments, also known as HAP, requisitioned for the participant does not change. The HAP funds not used by HPD, due to the increased earnings of the participant, are deposited into an interest-bearing subaccount on behalf of the participant. Participants who complete their goals receive the balance in their subaccount upon graduating from the program. Participants who do not complete their goals forfeit the funds. Forfeited funds are returned to HPD's HAP fiduciary account and are treated as program receipts for the payment of non-administrative HAP expenses.

In August 2009, the New York City Department of Finance approved HPD's request to replace its existing FSS checking account with a new interest-bearing account within the same institution. The new savings account included the aforementioned subaccounts, which allowed HPD to track each program participant. According to HPD records, as of October 2010, the FSS account had a balance of \$2.1 million. In February 2012, HPD transferred the \$2.9 million balance in the FSS bank account to a new bank because the former was no longer on the City's designated bank list. The former bank account was closed in May 2012.

Objectives

To determine whether HPD administered its Family Self-Sufficiency account in accordance with applicable rules and regulations.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers the period from June 2009 to October 2010. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with Department officials during and at the conclusion of this audit. A preliminary draft report was sent to HPD officials and discussed at an exit conference on August 22, 2012. On September 4, 2012, we submitted a draft report to HPD officials with a request for comments. We received a written response from HPD officials on September 17, 2012.

HPD did not dispute the audit's findings and agreed with all four recommendations. The full text of the response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

HPD processed disbursements in accordance with its bank account procedures and performed the requisite bank reconciliations in a timely manner. However, HPD does not ensure that subaccounts are established and maintained for program participants. Furthermore, HPD does not properly track deposits to ensure that those subaccounts reflect accurate and up-to-date totals. As a result, HPD requisitioned funds for participants who were no longer in the program, which contributed to the excessive and unnecessary accumulation of funds in the account. For example, on June 18, 2010, HPD had to transfer \$4.3 million in excess funds from the FSS account to its HAP fiduciary account. Funds that are improperly requisitioned and held in escrow could affect HPD's program renewal needs and could possibly lead to the misuse of program funds.

Oversight of FSS Account Needs Improvement

HPD does not reconcile monthly deposits with participant subaccounts to ensure that funds requested were properly posted. An analysis of deposits for our sample period (June 2009 and May 2010 through July 2010) revealed that HPD requisitioned \$97,447 of \$395,861 (25 percent) for participants without subaccounts. Rather than crediting participant subaccounts, funds were deposited and remained in the account's reserve. HPD's bank account procedures require HPD to review deposits on a monthly basis in order to ensure that funds are applied to the correct subaccount and in the correct amount. See Table I for a breakdown.

Table I
Funds Requisitioned for Participants
Without Subaccounts by Month

Month Tested	Total Escrow Funds Requisitioned	Total Funds Earmarked to Participants Without Subaccounts	Percentage
June 2009	\$ 98,994	\$26,456	27%
May 2010	99,095	22,528	23%
June 2010	100,451	26,953	27%
July 2010	97,321	21,510	22%
Total	\$395,861	\$97,447	25%

In an interview on May 11, 2011, HPD officials stated that discrepancies occur between bank records and HPD records, but HPD does not address the differences due to the nature of the adjustment process—which conflicts with its written procedures.

In addition, for the month of June 2010, \$5,764 of \$79,254 that was earmarked for participants with subaccounts could not be traced. Funds that are deposited into the account first go to the reserve and are subsequently disbursed to specific participant subaccounts. In this case, funds were withdrawn from the reserve, but were not credited to a particular participant subaccount. Although the total balance of the account included the \$5,764, we could not determine where those funds actually went. This appears to be a recordkeeping error because the total balance

in the account was accurate. This would not be revealed by a bank reconciliation. However, HPD would have identified this discrepancy if it had followed its procedures.

Improper Requisition of Funds Not Identified

Further analysis of the aforementioned \$97,447 revealed that \$29,970 was earmarked for participants who were no longer in the program due to forfeiture or graduation.³ The Housing Choice Voucher Program Guidebook, issued by HUD, states that the Public Housing Authority (PHA), or in this case HPD, will not make additional credits to the FSS family's escrow account when the family has completed the contract of participation or when the contract of participation is terminated or otherwise nullified (forfeited). During our reconciliation of escrow deposits to program participants, we noted that the \$29,970 was requisitioned for 36 participants who were no longer in the program. Table II is a breakdown of over-requisitioned funds by month.

Table II
Amount Over Requisitioned by Month

Month Tested	Amount Over Requisitioned
June 2009	\$10,180
May 2010	6,728
June 2010	7,358
July 2010	<u>5,704</u>
Total	\$29,970

Some of these participants have been out of the program since 2002, but remained on the requisition list used to support monthly deposits. For example, one participant forfeited on April 30, 2003, but continued to have escrow deposits through 2011. According to documentation provided by HPD, this participant's escrow account accumulated \$52,172 after leaving the program. Another participant graduated on January 1, 2005, but continued to have escrow deposits through February 2012—accumulating a balance of over \$20,280. Again, if HPD were properly reviewing deposits on a monthly basis, participants without a subaccount would have raised a red flag, and these individuals would have been identified and removed from the requisition list. However, because so many legitimate participants did not have subaccounts, these problems went unnoticed.

As previously stated, these issues contributed to the excessive and unnecessary accumulation and potential misuse of funds. HPD stated in June 2010 a “cleanup” effort was performed and HPD transferred \$4.3 million from the FSS account to its HAP fiduciary account. According to HPD, the \$4.3 million was composed of forfeiture miscalculations and escrow accounting errors. However, as illustrated in the above examples, problems continued past the June 2010 “clean up.” HPD's oversight needs improvement in order to ensure that funds are properly accounted for and do not accumulate beyond the needs of the program.

An evaluation of HPD's current (post-February 2012) bank account was conducted on July 27 and July 31, 2012. It appears HPD is in the process of resolving the issues cited in the report and is reconciling the accounts. However, HPD has not fully completed its review. Based on the evaluation, some program participants still lack the required subaccount and HPD continues to requisition funds for individuals no longer in the program. Therefore, the report's recommendations remain unchanged.

³ A participant forfeits if he/she does not complete the contract or withdraws from the program.

Recommendations

HPD should:

1. Review all subaccounts to determine whether the participants are still in the program and make any necessary adjustments.

Department Response: “HPD is in the process of reviewing all FSS subaccounts and has been taking and will continue to take the necessary steps to make the appropriate adjustments and/or close accounts where applicable. Given the nature of the program, there may be ongoing lags between the point when tenant information changes and when those changes are received and reflected by the agency. HPD will do ongoing regular adjustments as needed.”

2. Transfer all funds unassigned, held in reserve, or forfeited to the HAP fiduciary account in accordance with HUD guidelines.

Department Response: “As noted in the audit, HPD processed all disbursements in accordance with its bank account procedures and performed the required bank account reconciliations accurately and timely. In the past, HPD reviewed and reconciled sub account balances at participant graduation. Going forward, funds held in the forfeiture subaccount and excess funds held in the reserve subaccount will be evaluated regularly and the appropriate amounts will be transferred to the HAP fiduciary account on a quarterly basis.”

3. Update its bank account procedures to reflect the change in banking institutions.

Department Response: “HPD will update the FSS bank account procedures to reflect the change in banking institutions. HPD is in the process of also revising the overall FSS bank account procedure to include other changes, for example; DOF oversight approval needed for the opening and closing of all subaccounts.”

4. Comply with HPD procedures by reviewing deposits on a monthly basis to ensure that funds were applied in the correct amount to the correct subaccounts.

Department Response: “HPD has updated the FSS bank account process. The new process allows HPD to electronically transmit the monthly escrow deposits to the appropriate subaccounts via on-line banking batch upload. HPD has established a working relationship with the new banking institution, and has been reviewing and will continue to review deposits on a monthly basis to ensure that funds are applied in the correct amount to the correct subaccounts.”

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers the period from June 1, 2009, through October 31, 2010. To achieve our objectives, we reviewed Comptroller's Directive #1, "Principles of Internal Control," Comptroller's Directive #11, "Cash Accountability and Controls," and Comptroller's Directive #27, "Fiduciary Accounts: Procedures for Requesting, Controlling and Monitoring."

To gain an understanding of HPD's Family Self-Sufficiency (FSS) account, we reviewed HPD's FSS Carver Bank Account procedures (which addresses HPD's administration of the account), Description of Operating Bank Accounts, and HPD's FSS Escrow Bank Account Request Form. We also reviewed Chapter 23 of the Housing Choice Voucher Program Guidebook, which covers the rules and regulations established by HUD for HPD to follow for administering an FSS program. To gain an understanding of the controls that are in place, we conducted a walk-through of the Accounts Payable Department and interviewed HPD officials from Fiscal, Budget, and the Department of Tenant Resources (DTR). We documented our understanding through written narratives. We also created a spreadsheet that identifies employees and their responsibilities over the account. This spreadsheet was analyzed to determine whether HPD properly segregated duties that mutually pose potential risk of error or fraud.

To conduct our testing, we judgmentally selected the month with the largest total disbursement from both the closed account (June 2009– \$124,289) and the new account (June 2010– \$4,444,470). To identify the month with the largest total disbursement, we obtained HPD's bank reconciliation reports for the entire scope period and compiled the data on an Excel spreadsheet. To obtain reasonable assurance that this data was accurate, reliable, and complete, we randomly selected the month of July 2009 from the closed account and February 2010 from the new account, and compared the transactions on the bank reconciliation reports to those of the bank statements.

To determine whether HPD's controls over the FSS account were operating effectively, we reviewed each transaction that composed the \$124,289 and the \$4,444,470. We examined supporting documentation for disbursement authorization, approvals, and proper backup. We reviewed HPD's list of authorized signatories and compared the signatures to those on the checks and examined the checks for dual signatures. We reviewed bank reconciliations for accuracy and determined whether they were signed by a preparer and approved by the supervisor or an authorized individual. We also reviewed the FSS Initial Bank Account Request Form to determine whether disbursements were made in accordance with the purpose of the account.

To determine whether HPD processed deposits and maintained subaccounts in accordance with its policies and procedures, we traced the amounts on the FSS requisition list to the individual participant subaccounts for the months of June 2009 and June 2010. During June 2010, several individuals appearing on the requisition list did not have subaccounts. Therefore, we expanded our sample to include the previous month (May 2010) and the month after (July 2010) for comparative purposes. To determine whether these individuals were bona fide participants, we judgmentally selected a sample of 20 individuals who were credited with an amount equal to or

in excess of \$450 and reviewed participant files. Furthermore, to determine whether HPD closed subaccounts and ceased requisitioning funds for participants who graduated or forfeited during June 2010, we reviewed the requisition list and subaccounts for the month of July. We also compared the requisition lists for each month to a list of forfeitures previously provided by HPD.

On July 27 and July 31, 2012, we reviewed bank statements from HPD's current (post- February 2012) bank account. The bank statements, February through June 2012, were reviewed to determine whether subaccounts are established and maintained for program participants and whether HPD requisitioned funds for individuals who forfeited or graduated from the program.

The results of the above tests, while not statistically projected to their respective populations, provide a reasonable basis for us to assess HPD's administration of the FSS account in accordance with applicable rules and regulations.



Department of
Housing Preservation
& Development
nyc.gov/hpd

MATHEW M. WAMBUA
Commissioner

Office of the Commissioner
100 Gold Street
New York, N.Y. 10038

September 17, 2012

Tina Kim
Deputy Comptroller for Audits
Office of the New York City Comptroller
1 Centre Street- Room 1100N
New York, New York 10007-2341

Re: Audit on HPD's Administration of its Family Self-Sufficiency Escrow Account
Audit Number: FM12-082A

Dear Deputy Comptroller Kim:

The following represents the Department of Housing Preservation and Development's response to the findings and recommendations made in your audit on the HPD's Administration of its Family Self-Sufficiency Escrow Account.

Thank you for your consideration during the fieldwork and at the Exit Conference.

If you have any additional questions, please call Assistant Commissioner Josh Cucchiaro at (212) 863-6610.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Wambua".

Mathew M. Wambua



AUDIT RESPONSE
NEW YORK CITY COMPTROLLERS AUDIT
NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT
ADMINISTRATION OF ITS FAMILY SELF-SUFFICIENCY ESCROW ACCOUNT
REPORT FMI2-082A

<p><u>Finding</u> Oversight of FSS Account Needs Improvement</p>	<p>Recommendation 1. HPD should review all subaccounts to determine whether the participants are still in the program and make any necessary adjustments.</p>	<p>Response 1. HPD is in the process of reviewing all FSS subaccounts and has been taking and will continue to take the necessary steps to make the appropriate adjustments and/or close accounts where applicable. Given the nature of the program, there may be ongoing lags between the point when tenant information changes and when those changes are received and reflected by the agency. HPD will do ongoing regular adjustments as needed.</p>
<p><u>Finding</u> Improper Requisition of Funds Not Identified</p>	<p>Recommendation 2. HPD should transfer all funds unassigned, held in reserve, or forfeited to the HAP fiduciary account in accordance with HUD guidelines.</p>	<p>Response 2. As noted in the audit, HPD processed all disbursements in accordance with its bank account procedures and performed the required bank account reconciliations accurately and timely. In the past, HPD reviewed and reconciled sub account balances at participant graduation. Going forward, funds held in the forfeiture subaccount and excess funds held in the reserve subaccount will be evaluated regularly and the appropriate amounts will be transferred to the HAP fiduciary account on a quarterly basis.</p>
	<p>Recommendation 3. HPD should update its bank account procedures to reflect the change in banking institutions.</p>	<p>Response 3. HPD will update the FSS bank account procedures to reflect the change in banking institutions. HPD is in the process of also revising the overall FSS bank account procedure to include other changes, for example; DOF oversight approval needed for the opening and closing of all subaccounts.</p>
	<p>Recommendation 4. HPD should comply with HPD procedures by reviewing deposits on a monthly basis to ensure that funds were applied in the correct amount to the correct subaccounts.</p>	<p>Response 4. HPD has updated the FSS bank account process. The new process allows HPD to electronically transmit the monthly escrow deposits to the appropriate subaccounts via on-line banking batch upload. HPD has established a working relationship with the new banking institution, and has been reviewing and will continue to review deposits on a monthly basis to ensure that funds are applied in the correct amount to the correct subaccounts.</p>