

City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the New York City
Housing Authority's Procedures for the
Verification of Section 8 Housing
Choice Voucher Program Participant-
Reported Information

FM13-125A

May 29, 2015

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, NY 10007

SCOTT M. STRINGER
COMPTROLLER

May 29, 2015

To the Residents of the City of New York:

My office has audited the New York City Housing Authority (NYCHA) to determine whether NYCHA's procedures for verifying Section 8 Housing Choice Voucher (Section 8) program participant-reported information during the annual recertification process were adequate and sufficient to meet federal Department of Housing and Urban Development (HUD) program requirements. We audit entities such as NYCHA to ensure that they effectively manage assets entrusted to them and do so in accordance with applicable rules and regulations.

NYCHA provides housing subsidies to more than 96,000 families by paying a portion of the program participants' rent. Through Section 8, NYCHA subsidizes the rent for qualified low-income families. The families then pay the differences between the actual rents charged by the landlords and the amount subsidized by the Section 8 program. During Calendar Year 2013, NYCHA received \$1.037 billion in subsidies from HUD for the operation of the Section 8 program.

The audit found that NYCHA's existing procedures generally meet HUD's requirements for verifying participant-reported information and that NYCHA appropriately utilized HUD's Deceased Tenants Report, Multiple Subsidy Report, and the Failed Verification Report. However, we looked at additional sources of asset, income and family composition data and matched it against all NYCHA's Section 8 participants as of November 19, 2013 and determined that there was evidence that indicated that as many as 2,041 participants may have omitted information during recertification. The information we found potentially related to Section 8 participants' assets and income was not considered during recertification, and may have affected the participants' entitlement to benefits.

The audit recommends that NYCHA determine whether the participants identified in this audit as possibly having failed to report ownership of real property or marriage have, as a result, received Section 8 benefits to which they are not entitled to, whether they are currently entitled to benefits, and if so, in what amounts. NYCHA should take appropriate action against those participants who have omitted information and/or made false statements to NYCHA in connection with the program, refer any participant who appeared to have made a material omission or a false statement to NYCHA in connection with their recertifications to the New York City Department of Investigation, and refer those participants who appear to have wrongly received property tax exemptions to the appropriate taxation authorities. Finally, NYCHA should consider employing additional procedures to verify assets and income, including but not limited to the data matches we performed, to improve its verification of participant-reported information.

The results of the audit have been discussed with NYCHA officials, and their comments have been considered in preparing this report. NYCHA's 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,

A handwritten signature in blue ink, appearing to read "Scott Stringer".

Scott Stringer

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**THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
FINANCIAL AUDIT**

**Audit Report on the New York City
Housing Authority's Procedures for the Verification
Of Section 8 Housing Choice Voucher Program
Participant-Reported Information**

FM13-125A

EXECUTIVE SUMMARY

This audit examined whether the New York City Housing Authority's (NYCHA) procedures for verifying Section 8 Housing Choice Voucher Program participant-reported information during the annual recertification process were adequate and sufficient to meet federal Department of Housing and Urban Development (HUD) program requirements. The audit covered all participants who were active as November 19, 2013. NYCHA provides housing subsidies to more than 96,000 families by paying a portion of the program participants' rent. Through Section 8, NYCHA subsidizes the rent for qualified low-income families. The families then pay the differences between the actual rents charged by the landlords and the amount subsidized by the Section 8 program. During calendar year 2013, NYCHA received \$1.037 billion in subsidies from the federal government through HUD for the operation of the Section 8 program.

Federal regulations established by HUD require Public Housing Agencies (PHA), such as NYCHA, to conduct initial certifications and subsequent recertification of family income and composition every year. Through annual recertification, NYCHA is required to determine that participants continue to be eligible and recalculate the current amounts of the subsidies to which they are entitled.

As part of the recertification process, participants must accurately report their most current information regarding changes in family composition, income, assets, and other factors used by NYCHA to determine the amount of Section 8 rental subsidies that will be paid on their behalf. NYCHA housing assistants review and analyze the information received from the participants. Pursuant to HUD requirements, housing assistants validate participant income information through HUD's Enterprise Income Verification system (EIV), a web-based computer system that contains employment and income information about individuals who participate in HUD's rental assistance programs. EIV also verifies participants' social security numbers and determines if participants owe outstanding debt to any PHA. In addition, HUD requires NYCHA to periodically utilize different reports to verify the information participants provide, including the Deceased Tenants Report, which is used to identify deceased participants; the Multiple Subsidy Report, which is used to identify participants who may be receiving subsidies in more than one location;

and the Failed Verification Report, which is used to identify participants whose personal identifiers, such as social security numbers, do not match the Social Security Administration (SSA) database.

Audit Findings and Conclusions

NYCHA's existing procedures generally meet HUD's requirements for verifying participant-reported information and appropriately utilized HUD's Deceased Tenants Report, Multiple Subsidy Report, and the Failed Verification Report. Further, in a sample of 100 case files we reviewed closely, we did not identify any instance where NYCHA recertified a participant without obtaining the required documentation to verify reported income or without validating the information through EIV in accordance with its existing procedures.

HUD does not require NYCHA to conduct additional verifications beyond those it presently conducts. However, HUD's guidebook states that, "PHAs are ultimately responsible for ensuring that the right people receive the right amount of subsidy, and they must maintain a high degree of accuracy in administering the housing choice voucher program." Accordingly, we looked at additional sources of assets, income and family composition data and matched it against all NYCHA Section 8 participants as of November 19, 2013 to determine if there were participants who may have omitted information during recertification. Based on our data matches, we identified discrepancies in records potentially related to 2,041. The information we found potentially related to household assets and income was not considered during recertification, and may have affected the participants' entitlement to benefits. To maintain program integrity, NYCHA should consider implementing, in whole or in part, procedures such as those we employed to ensure that it considers all available information related to Section 8 eligibility during recertification, and to use additional data to verify self-reported information on property ownership and marriage.

Audit Recommendations

This report makes a total of five recommendations to NYCHA, including:

- Determine whether those participants we identified in this audit as possibly having failed to report ownership of real property or marriages have, as a result, received Section 8 benefits to which they were not entitled, whether they are currently entitled to any benefits, and if so, in what amounts.
- Take any appropriate action under the Section 8 program against those participants who have omitted information and/or made false statements to NYCHA in connection with the program.
- Refer any Section 8 participants who appear to have made material omissions or false statements to NYCHA in connection with their recertifications to the New York City Department of Investigation.
- Consider employing additional procedures to verify assets and income, including but not limited to the data matches we performed, to improve its verification of participant-reported information.

NYCHA Response

In their response to the draft report, NYCHA officials were pleased with the report's conclusion that NYCHA's existing procedures generally meet HUD's requirements for verifying participant – reported information. However, NYCHA officials took exception with the report's other conclusions. Specifically, NYCHA stated that the report's conclusions concerning potential NYCHA subsidy overpayments are overstated and susceptible of misinterpretation, and that the information identified by the Comptroller during the course of the audit concerning unreported household information would have had a minimal impact of NYCHA's subsidy payments.

We note that NYCHA officials do not appear to have closely reviewed the results of our data analysis and all of the documentation we shared with them during the course of this audit and also did not provide any documentation or analysis to support their conclusion that this unreported information would have a minimal impact on NYCHA's subsidy payment.

However, NYCHA agreed with four of the report's five recommendations. NYCHA officials stated that NYCHA "recognizes the potential benefits of employing additional verification techniques such as the data matching undertaken by the Comptroller's office, even though not required by HUD. NYCHA appreciates the Comptroller's analysis and recommendations, and will conduct a cost benefit analysis to determine whether the expected benefit of the recommended data matching strategies outweighs any added administrative process and costs." For the fourth recommendation, that NYCHA refer those participants who appear to have wrongly received property tax exemptions to the appropriate taxation authorities, NYCHA requested the Office of the Comptroller to carry out this recommendation itself. However, as NYCHA itself points out, this audit identifies apparent discrepancies found through a comparison of multiple databases. NYCHA needs to perform further analysis to determine if those apparent discrepancies reflect actual failures to report information, misallocation of Section 8 resources, or possibly greater misconduct. While the Comptroller's Office routinely refers evidence we find to appropriate authorities, that does not absolve NYCHA of its responsibility for managing its programs and sharing information with other government agencies as appropriate.

The full text of NYCHA's response is included an addendum to this report.

AUDIT REPORT

Background

NYCHA currently administers the largest Housing Choice Voucher Program, also known as Section 8, in the nation. NYCHA provides housing subsidies to more than 96,481 families by paying a portion of the program participants' rent.¹ Through Section 8, NYCHA subsidizes the rent for qualified low-income families.² The families then pay the differences between the actual rents charged by the landlords and the amount subsidized by the Section 8 program. During calendar year 2013, NYCHA received \$1.037 billion in subsidies from HUD for the operation of the Section 8 program.

To qualify for the Section 8 program, families must be within income limits set by HUD, at least one member of the family residing in the apartment must be able to document compliance with program requirements of citizenship or eligible immigration status, and the family must provide social security numbers for all family members who claim citizenship or eligible immigration status. As of September 2013, NYCHA had a waiting list of approximately 122,000 households seeking admission to the program. The waiting list has been closed since December 9, 2009, meaning that no new applications for NYCHA Section 8 vouchers have been accepted since 2009.

As is reflected in the waiting list, there is an acute shortage of housing in the City that is affordable to low income households. According to Mayor DeBlasio's *Housing New York: A Five-Borough, 10-Year Housing Plan to Protect and Expand Affordability*, released on May 5, 2014, there were only about 425,000 rental units that were affordable to the nearly one million extremely low income and very low income households (those households with total yearly income of \$42,000 or less) in the five boroughs.

Federal regulations established by HUD require PHAs, such as NYCHA, to conduct initial certifications and subsequent recertifications of family income and composition every year. Through annual recertification, NYCHA is required to determine that participants continue to be eligible and recalculate the current amounts of the subsidies to which they are entitled.

Pursuant to HUD regulations, NYCHA sends a recertification package to heads of households who participate in the Section 8 program once a year. Under the recertification requirements, participants must accurately report their most current information regarding changes in family composition, income, assets, and other factors used by NYCHA to determine the amount of Section 8 rental subsidies that will be paid. Participants must also provide third-party verifications, which include W-2 statements, employer letters, letters from agencies providing benefits, and signed Third Party Verification-Consent to Release Information Forms for each household member over the age of 18. (See Appendix I for a complete list of the information and supporting documentation participants are required to submit in connection with recertification.)³

¹ In New York City, there are two City Public Housing Agencies that provide Section 8: NYCHA and the New York City Department of Housing Preservation and Development (HPD). HPD administers the Section 8 program on behalf of approximately 32,400 families.

² NYCHA defines a family as, "A single person or a group of two or more persons with or without children who maintain an interdependent relationship and whose income and resources are available to meet the family's needs". NYCHA defines the Head of Household as the "voucher holder" who "is responsible for ensuring that the family fulfills all of its responsibilities under the program." Unless otherwise noted in this report, family members in the household are referred to as participants.

³ This audit is of the recertification process only, which imposes different requirements on PHAs for determining continued eligibility than those required at the time initial applications are evaluated.

As part of the recertification process, NYCHA housing assistants review and analyze the information received from the participants. Pursuant to HUD requirements, housing assistants validate participant income information through HUD's EIV, a web-based computer system that contains employment and income information about individuals who participate in HUD's rental assistance programs. EIV also verifies participants' social security numbers and determines if participants owe outstanding debt to any PHA. In addition, HUD requires NYCHA to periodically utilize different reports to verify the information they receive, including the Deceased Tenants Report, which is used to identify deceased participants; the Multiple Subsidy Report, which is used to identify participants who may be receiving subsidies in more than one location; and the Failed Verification Report, which is used to identify participants whose personal identifiers, such as social security numbers, do not match the SSA database.

Objective

The objective of this audit was to determine whether NYCHA's procedures for verifying participant-reported information during the annual recertification process were adequate and sufficient to meet HUD program requirements.

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 period of this audit covered all NYCHA Section 8 participants who were active as November 19, 2013.

Discussion of Audit Results with NYCHA

The matters covered in this report were discussed with NYCHA officials during and at the conclusion of this audit. NYCHA was provided an initial list of those participants cited in the report on September 30, 2014. Included in that list was preliminary information we obtained that indicated the possibility of income and/or assets that may not have been reported by those participants. A preliminary draft report was provided to NYCHA officials and discussed at an exit conference held on April 9, 2015. On April 23, 2015, we submitted a draft report to NYCHA officials with a request for comments. We received a written response from NYCHA officials on May 7, 2015.

In their response to the draft report, NYCHA officials were pleased with the report's conclusion that NYCHA's existing procedures generally meet HUD's requirements for verifying participant-reported information. However, NYCHA officials took exception with the report's other conclusions. Specifically, NYCHA stated that the report's conclusions concerning potential NYCHA subsidy overpayments are overstated and susceptible of misinterpretation, and that the information identified by the Comptroller during the course of the audit concerning unreported household information would have had a minimal impact of NYCHA's subsidy payments.

We note that NYCHA officials do not appear to have closely reviewed the results of our data analysis and all of the documentation we shared with them during the course of this audit and also did not provide any documentation or analysis to support their conclusion that this unreported information would have a minimal impact on NYCHA's subsidy payment.

However, NYCHA agreed with four of the report's five recommendations. NYCHA officials stated that NYCHA "recognizes the potential benefits of employing additional verification techniques such as the data matching undertaken by the Comptroller's office, even though not required by HUD. NYCHA appreciates the Comptroller's analysis and recommendations, and will conduct a cost benefit analysis to determine whether the expected benefit of the recommended data matching strategies outweighs any added administrative process and costs." For the fourth recommendation, that NYCHA refer those participants who appear to have wrongly received property tax exemptions to the appropriate taxation authorities, NYCHA requested the Office of the Comptroller to carry out this recommendation itself. However, as NYCHA itself points out, this audit identifies apparent discrepancies found through a comparison of multiple databases. NYCHA needs to perform further analysis to determine if those apparent discrepancies reflect actual failures to report information, misallocation of Section 8 resources, or possibly greater misconduct. While the Comptroller's Office routinely refers evidence we find to appropriate authorities, that does not absolve NYCHA of its responsibility for managing its programs and sharing information with other government agencies as appropriate.

The full text of NYCHA's response is included as an addendum to this report.

FINDINGS

We found that NYCHA's existing procedures generally meet HUD's requirements for verifying participant-reported information and that it appropriately utilized HUD's Deceased Tenants Report, Multiple Subsidy Report, and the Failed Verification Report. Further, in a sample of 100 case files we reviewed closely, we did not identify any instance where NYCHA recertified a participant without obtaining the required documentation to verify reported income or without validating the information through EIV in accordance with its existing procedures.

NYCHA is not required to conduct additional verifications by HUD. However, HUD's guidebook states that, "PHAs are ultimately responsible for ensuring that the right people receive the right amount of subsidy, and they must maintain a high degree of accuracy in administering the housing choice voucher program." Accordingly, we looked at additional sources of assets, income and family composition data and matched it against all NYCHA Section 8 participants as of November 19, 2013 to determine if there were participants who may have omitted information during recertification. Based on these public record data matches, our analysis found potential discrepancies in these records related to 2,041 participant households. Specifically, we identified 409 participants who appeared to own 457 properties, which according to NYCHA's database had not been reported. In addition, we found 1,638 participants who appear to have been married between 2011 and 2013 but whose spouses were also not known to NYCHA, including 38 spouses who appeared to have been paid for working for the City in 2013.

Because the information that we found was potentially related to household assets and income and was not considered during recertification, 2,041 participants may have received benefits or a level of benefits to which they were not entitled. We calculated that NYCHA provided a total of \$42.1 million in subsidies for these 2,041 participants between the dates of the omitted events (e.g., the purchasing of property or getting married) and February 28, 2014.⁴ Had the participants reported all of their household assets and income, they might have been deemed ineligible for Section 8 benefits or, even where they were eligible to receive Section 8 benefits, the amount of their subsidies might have been reduced. In addition, any of these 2,041 participants who were ineligible for Section 8 vouchers because of the omitted information deprived an eligible person on the waiting list of a subsidy he or she should have received.

We reported these potential discrepancies and provided supporting information to NYCHA so they could take any appropriate action. Participants found to have underreported household assets and income could be required to repay the subsidies and/or could be removed from the program. They may also be subject to legal penalties. To maintain program integrity, NYCHA should consider implementing, in whole or in part, procedures to ensure it considers all available information related to Section 8 eligibility during recertifications, and to use additional data to verify self-reported information on property ownership and marriage.

⁴ Although the full value of the subsidies paid totals \$42.1 million, this does not necessarily mean the full value was improper. In addition, for participants with unreported property, we calculated subsidies paid on behalf of the participants only if the unreported property was a single or multi-family property. Six of the 1,638 participants who appear to have not reported their marriages to NYCHA also appear to have unreported real property. To avoid double counting the total number of participants in either category, six participants were removed from the count of total participants. Further, we could not obtain subsidy payment records from NYCHA's new participant information database dated earlier than December 2008. Therefore, the amount of subsidies paid to participants with unreported property since the date of omission could be greater than estimated in this report.

Verification of Participant-Reported Assets Can Be Improved

NYCHA can improve controls over the accuracy and completeness of the information it receives about participant assets by performing public record searches for each participant at the time their eligibility is recertified or by periodically running batch reviews of participants against public records of property ownership. By these means, NYCHA could identify participants who did not completely report property ownership. Information about additional properties owned and income received from those properties could result in subsidy reductions or terminations from the program and free up limited vouchers for eligible households on the NYCHA waiting list.

Although EIV enables NYCHA to verify income, it does not allow for verification of assets. In a prior audit conducted by the New York City Comptroller of a program that serves HPD's Section 8 participants, we identified a considerable risk that the failure of Section 8 participants to report properties they owned would go undetected and so such properties would not be included in the determination of rental assistance.⁵ Consequently, we utilized LexisNexis to identify real property potentially owned by participants in the Section 8 program.⁶

During recertification, Section 8 participants are required to identify all real property they own, provide documentation supporting its cash value, and provide documentation of any income derived from those assets. Income is a key factor for calculating Section 8 subsidies and how much those subsidies will be. Participants must sign a declaration stating that they have not willingly made a false statement, given false information or omitted information in connection with their assets. The declaration further states that "willful false statements or misrepresentation are a criminal offense under Section 1001 of Title 18 of the U.S. Code." However, this declaration, while important, provides a limited control over the completeness and accuracy of the information that participants report. HUD also requires certain specific verifications of the participant-supplied information, which are limited in their effectiveness for the identification of assets.

409 Participants Appear to Own Property That Has Not Been Reported

Based on our analysis of all of the individuals receiving Section 8 subsidies through NYCHA on November 19, 2013, matched against publically available records such as deeds, tax records, and other corroborating information, we identified 409 participants who possibly own 457 properties throughout the United States that were not considered during recertification.⁷ Of these, 32 Section 8 participants appear to own more than one property. In many cases, the addresses where the Section 8 participants receive their subsidies appear as mailing addresses on the deeds, tax records and mortgages we reviewed. Table I provides a breakdown of the types and number of properties we identified.

⁵ The report, *Audit Report on the Department of Housing Preservation and Development's Disbursement of Its Family Self-Sufficiency Program Funds*, (Audit Number FM13-058A), determined that 3% of the sampled Section 8 participants appeared to own unreported real property in New York City.

⁶ LexisNexis is a subscription database that, among other things, aggregates public records of property ownership and personal data about individuals. As a government agency, we may have been able to access data that an ordinary user of LexisNexis products would not have been able to obtain.

⁷ For some of the 409 participants, we were often able to obtain corroboration that the participants were associated with specific real properties through motor vehicle, utility and voter registration records.

Table I

Types of Unreported Property

Type of Property	Amount
Single-Family Home	293
Multi-Family Home	44
Commercial	2
Time Shares or Campsites	15
Vacant Land	101
Mixed Use	2
Total	457

Owning unknown single family and multi-family homes and commercial properties could have a significant impact on those participant/owners' recertifications because such properties generally have far greater values and could be income-producing. Accordingly, when NYCHA does not know of such assets, it may also be unaware of a material amount of income.⁸

In one example, we identified a NYCHA Section 8 participant who appears to own a two-story, four-unit apartment building since December 2006 and a two-story, two-unit multi-family house since May 2012. In September 1981, the participant was admitted to the Section 8 program and has been receiving a rental subsidy for a three-bedroom apartment in the Brownsville section of Brooklyn since June 1997. The participant's name and subsidy address appear on both the deed and the initial mortgage document of the four-unit apartment building. Further, the participant used the address of the first property that she appeared to have purchased as her mailing address on the deed used to purchase the second property. We calculated that this participant received a total of \$46,580 in rental subsidies from December 2008 to February 2014.

Our review of various real estate websites disclosed that the same participant appears to be renting all six units of units contained in the two unreported properties. There were "no vacancies" as of September 5, 2014. The participant reported to NYCHA that she earned \$7,380 in income as a real estate broker on her 2013 recertification. As of June 6, 2014, the New York City Department of Finance (DOF) estimates the combined market values of the two properties at \$545,000.

Similarly, in another example, we identified a participant who appears to have owned at least three Brooklyn properties: a 3,808 square foot mixed-use, multi-family home with attached commercial space, and two three-family homes (4,400 square feet and 2,700 square feet, respectively), with a combined market value estimated by DOF to be \$1.6 million. The participant, possibly a real property owner since as early as November 2005, did not report any income generated from these properties and did not declare any assets to NYCHA at the time of the most recent recertification. Two of the three properties were purchased as part of an interfamily transaction in July 2012. Our review of various real estate websites in September 2014 disclosed that the multi-family home with attached commercial space was on the market for \$1.5 million. Further research disclosed that the participant may also own another Brooklyn property whose market value is estimated by DOF to be \$507,000. Although the participant has been in the Section 8 program since 1991, these additional properties raise questions about the more than \$84,544 in rental subsidies paid by NYCHA since December 2008 on the participant's behalf for

⁸ Given the generally small dollar value of timeshares, campsites, and vacant land, we did not consider these in our analysis.

a subsidized unit in the Bedford-Stuyvesant section of Brooklyn. Information prior to December 2008 for this participant could not be accessed using NYCHA's new database.

94 Participants Likely Claiming Property Tax Exemptions for Second Homes That Require Full-Time Residency

In addition to receiving Section 8 subsidies, we found that 94 of the 409 Section 8 participants identified as appearing to own unreported real property may have also have claimed the New York State School Tax Assessment Relief (STAR) tax exemption or its out-of-state equivalent for a primary residence other than their Section 8 apartments. A STAR tax exemption may only be claimed by a homeowner on a property that is used as the owner's primary residence. Similarly, a Section 8 voucher may only be used to supplement the rent on a participant's primary residence. Consequently, Section 8 participants cannot receive Section 8 rental assistance for an apartment supposedly used as a primary residence and at the same time receive a STAR tax exemption for a different property supposedly used as a primary residence.

Our analysis found that 51 Section 8 participants appear to have received the STAR exemption in New York, 26 appear to have received the STAR equivalent in Florida (also known as the Homestead exemption), along with 5 in Texas, 4 in Georgia, 3 in Pennsylvania, 2 in South Carolina, and one each in Maryland, Nevada, and Virginia. If a participant's primary residence is actually the Section 8 apartment, then these participants are defrauding the STAR program or its out-of-state equivalent. Conversely, if the participants are residing at these homes, then the participants are not entitled to receive Section 8 subsidies.

NYCHA Response: "In its review of the cases cited for unreported real estate assets, the Comptroller's office used the market value of the owned property to estimate a participant's asset income for purposes of subsidy eligibility. . . . According to HUD, the cash value of a property is the market value of a property minus reasonable expenses required to convert the asset to cash Once the net value is calculated, it is imputed using an interest rate, specified by NYCHA in accordance with HUD guidelines, to determine the asset income."

"Also, many of the findings related to real estate assets were found to be inconclusive leads. As a result, the audit appears to have reported a high percentage of false positives. NYCHA randomly selected and reviewed 42 of the 409 cases that purportedly failed to report real estate assets. Of these cases, 35 cases did not require additional follow-up since the participant was not receiving any rental assistance subsidies or the information provided by auditors had inconclusive property ownership information. In addition, approximately 24 participants owned or subleased cooperative shares (coops), which is permissible under the Section 8 program."

Auditor Comment: NYCHA incorrectly contends that we calculated or used the cash value of the assets that the participants appear to own for purposes of determining subsidy eligibility and nowhere in the report does it state this. Rather, as is clearly described in the finding, the purpose of the data match was to identify participants who may have failed to report property to NYCHA during annual recertification, which according to NYCHA's response is a serious issue. Specifically, NYCHA itself stated that "participants who willfully omit or misrepresent information risk losing the rental subsidy and criminal prosecution."

In addition, had NYCHA reviewed all 409 participant cases, it would have discovered, as we did, that 120 of the participants used their Section 8 address and name on mortgage, property tax, or property deed documents, providing even stronger evidence of the participant's current ownership of the properties in question. Additionally, 73 of those participants were connected with single-

family or multi-family properties. Further, 8 of these 73 participants were connected with more than one single- or multi-family property.

With regards to the 24 participant coop owners or sub-lessors, they were cited for appearing to own properties *in addition to* the cooperative where they were receiving a section 8 subsidy. NYCHA would have discovered this had it closely reviewed the documentation we provided.

Nine Participants Receive Subsidies at Properties That They or Their Relatives Appear to Own or Control

Both NYCHA and HUD regulations prohibit Section 8 subsidy payments on apartments owned by the subsidy participant or a close family member, except in very limited circumstances.⁹ However, we identified nine participants who appear to own, control, or are a close relation to the owner of their Section 8 apartment, none of whom appear from the tenant records we reviewed to qualify for an exception. According to § 982.352(a)(6) of Title 24 of the Code of Federal Regulations, any unit occupied by its owner or by a person with any interest in the unit is prohibited from receiving Section 8 subsidies. Furthermore, according to the NYCHA Section 8 Administrative Plan, NYCHA will disapprove a unit if a conflict of interest exists due to a property owner's status as a relative of the assisted participant. In addition, since June 1998, §982.306 (d) of Title 24 of the Code of Federal Regulations has prohibited PHAs from providing Section 8 subsidies to participants renting from close family members, specifically, parents, children, siblings, grandparents or grandchildren, with certain limited exceptions.

In one example, we identified a participant who entered the NYCHA Section 8 program on September 1, 2002. According to City property records, the participant appears to have purchased the same Section 8 property, a three-family home, a few months later on December 11, 2002, for \$390,000. The participant/owner also appears to be paying the property tax bills for the home. As of September 2014, NYCHA is paying \$874 per month to subsidize the participant/owner's rent for the unit. According to documentation on file at NYCHA, the participant/owner, who receives cash public assistance and assistance through the federal Supplemental Nutrition Assistance Program (SNAP, or food stamps), is only responsible for paying \$26 per month in rent on the property she appears to have owned for the last 12 years. Additionally, NYCHA records indicate that the subsidy payments made on her behalf are being sent to one of the previous owners of the home. The previous owner appears to be living at a NYCHA public housing development in Brooklyn.

These questionable subsidy payments total at least \$54,130 since December 2008, the first date for which we have subsidy payments. Further, public records indicate that the participant/owner may be maintaining another residence in Monroe County, Pennsylvania. If the participant spends more than 180 consecutive days at her Pennsylvania residence, she would also be in violation of NYCHA and HUD Section 8 regulations for being absent from the unit where she receives a subsidy.

In another example, two daughters of a Section 8 participant, who has been in the program since 1986, became trustees of the trust that purchased the participant's Section 8 apartment on November 27, 2009. As of June 2014, the trust was listed in NYCHA's database as the landlord with the participant's daughters/trustees listed as the landlord's contact people. DOF and the New York City Water and Sewer Board records also list one of the daughters as the owner of

⁹ In cases where NYCHA determines that approving the housing unit would provide reasonable accommodation for a family member with disabilities, subsidy payments on housing units owned by the subsidy recipient or a close family member are allowed.

record. As of November 27, 2009, NYCHA may have been making improper subsidy payments on the apartment for almost five years, totaling \$62,611.

In cases where the Section 8 participant or a close relative is also the owner of the property, NYCHA is issuing subsidy payments to property owners that are inappropriate according to program and federal guidelines. NYCHA can improve controls and help prevent inappropriate subsidy payments by incorporating public record searches into their recertification process.

NYCHA Response: “NYCHA forwarded 11 cases identified in the audit where the participant purportedly had a controlling interest in the subsidized unit to the Office of the Inspector General for further review. However, the Office of the Inspector General found that the majority of these cases were not viable leads. Of the 11 cases reviewed, 3 were owned by a religious entity or trust, property ownership was indeterminate for another, and 2 were purchased prior to the 1998 prohibition against family members owning the Section 8 unit. The remaining 6 cases are currently under review by the Office of the Inspector General. Case details from the Office of the Inspector General can be found in Appendix B. NYCHA is in the process of reviewing the remaining cases not under review by the Office of the Inspector General.”

Auditor Comment: We are pleased that NYCHA is reviewing these cases and taking action against those participants who appear to own or have an interest in the property where they receive the subsidy. However, we note that the two participants who purchased property prior to 1998 were not included in this report. Further, the case where NYCHA stated that “property ownership was indeterminate,” NYCHA’s own files contained an anonymous letter from a whistleblower detailing the manner in which the participant was potentially defrauding the program. Also, the NYCHA file also contained other corroborating evidence that substantiated the whistleblower’s complaint. We suggest NYCHA take a closer look at its own documents.

Verification of Participant-Reported Family Composition Can Be Improved

Similar to verification of assets, there are inherent difficulties verifying whether family composition, as reported by the participants, is accurate and complete. NYCHA can potentially improve controls over the accuracy of this information by using data analytic tools. While not required by HUD or NYCHA rules, data analysis can help address concerns over the accuracy of participant-reported family composition revealed by the data match conducted in connection with this audit.

Potential Unreported Spouses

A data match between marriage records maintained by the New York City Clerk’s Office and NYCHA’s Section 8 database identified 2,860 participants who appear to have been married between February 2011 and November 2013. Of these 2,860 participants, 1,638 of the new spouses had not been reported to NYCHA as of February 2014. Accordingly, there is a significant risk that the incomes of the new spouses may not have been reported by the participants. NYCHA’s Section 8 administrative plan, dated September 25, 2013, requires families to notify NYCHA of changes in family composition within 30 days. Any unreported spouse living at the Section 8 address and generating income could potentially result in overpayments of the rental subsidy.

The 1,638 participants who did not report their marriages to NYCHA received nearly \$30 million in Section 8 subsidies since they were married and may not have been entitled to a portion or all of the subsidies they received. Of the 1,638 participants, 1,234 reported their Section 8 address

as their residence on the marriage license, and 404 reported living at a different residence. In addition, 660 spouses of the 1,234 participants reported the participants' Section 8 address as their residence on the spouses' marriage licenses, which indicates that the couples may have both been residents at the Section 8 address prior to marriage. While it is possible that the remaining 574 couples where one spouse did not list the Section 8 address as a home address continued to live separately after their marriage, the information obtained by the data match at a minimum suggest that further inquiry by NYCHA is warranted.

Section 8 participants are required to provide information about all household income, including unemployment and public assistance benefits received by household members. The apparent new spouses of the participants we identified listed a variety of occupations on the marriage records, including engineer, computer technician, and professional boxer. In addition, a number identified themselves as being unemployed. Because the Section 8 program considers wages along with unemployment compensation, disability, Social Security and some welfare benefits when calculating household income, a new marriage would likely result in a decrease in the amount of a Section 8 subsidy for the family.

In addition to the occupations listed on the marriage license, we determined that 38 spouses of the 1,638 participants worked for the City and received income in 2013. Ten out of those 38 spouses reported the Section 8 address as their home addresses in their City payroll records. For example, one participant married a New York City Department of Education (DOE) teacher in August 2012. Both individuals listed the Section 8 address as their residence on the marriage license. City payroll records confirmed that the teacher lives at the Section 8 address and earned nearly \$60,000 in 2013. This income was not reported to NYCHA within 30 days, or at the participant's next recertification. Instead, the total household income reported to NYCHA in 2013 was \$12,588. Including the unreported income the DOE teacher earned, the couple's combined income exceeded \$72,000, which would in all likelihood result in a significant reduction or elimination of their subsidy altogether.

Residency Concerns

As noted above, the data match conducted in connection with this audit between NYCHA Section 8 participants and marriage records revealed that 404 of the 1,638 Section 8 participants, who did not report their spouses to NYCHA, listed an address on the marriage records other than their Section 8 addresses. This omission indicates that these active participants in the Section 8 program may not, in fact, be living at their Section 8 addresses. Also, 37 of the 404 participants were single-member households and so there are apparently no eligible family members who might be occupying the apartments. As indicated by NYCHA's administrative plan, failure to live at the subsidized address violates the NYCHA residency requirement. Further, if a participant is in fact not living in the unit, the remaining family members who might be deemed eligible may be living in a unit that is too large for their current family size under normal Section 8 program occupancy requirements, a condition HUD and NYCHA call "over-housed."¹⁰

NYCHA Response: "Upon review of the 2,047 cases cited by the Comptroller's office, NYCHA determined that approximately 350 cases did not require follow-up because either a) the unreported spouse has since been added, b) the participant is no longer part of the Section 8 program, or c) the unreported spouse was married to a family member who has since been removed from the Section 8 household. NYCHA also reviewed approximately 100 cases to-date

¹⁰ Upon the breakup of a family, NYCHA determines on a case by case basis which family member or members remain in the assisted household and whether the resulting assisted household may remain in the housing unit that it occupies at the time such a decision is made.

and found that all 100 households remain eligible for rental assistance. In order to provide a reasonable assessment of the extent of subsidy amount and eligibility issues, NYCHA is reviewing each case identified in the Comptroller's report to determine how rental assistance will be impacted, if at all. Among the potential outcomes, there will be some participants who will experience a decrease in rental assistance paid by NYCHA as a result of the family's adjusted income increasing; others who may actually experience an increase in rental subsidy as a result of the family's adjusted income decreasing; and still others will have no change in the amount of rental subsidy paid."

"In addition, NYCHA forwarded 38 cases to the Department of Investigation's Office of the Inspector General for NYCHA where the Section 8 participant purportedly failed to report a spouse who is a City employee. The Office of the Inspector General determined that 23 of the 38 cases did not warrant further review. The remaining 15 cases may present viable investigative leads but the Office of the Inspector General cautions that "it is far more likely that the Section 8 subsidy would be subject to an *'income-based reduction'* as opposed to outright removal from the program." (Emphasis in original).

Auditor Comment: In its response, NYCHA did not dispute the fact that spouses were living at the Section 8 address and were not reported. NYCHA should be concerned that there could be hundreds of unreported individuals living in housing it subsidizes. Further, although NYCHA did not provide evidence supporting the income or lack thereof of the unreported spouses, NYCHA is responsible for maintaining a high degree of accuracy when administering the program. At a minimum, the accuracy of reported family composition is in question.

RECOMMENDATIONS

While NYCHA generally met HUD's requirements verifying participant-reported information, based on all of the above findings, we recommend that NYCHA:

1. Determine whether those participants we identified in this audit as possibly having failed to report ownership of real property or marriages have as a result received Section 8 benefits to which they were not entitled, whether they are currently entitled to any benefits, and if so, in what amounts.

NYCHA Response: "NYCHA accepts this recommendation and will continue to follow-up with households identified in the audit as failing to report a spouse."

2. Take any appropriate action under the Section 8 program against those participants who have omitted information and/or made false statements to NYCHA in connection with the program.

NYCHA Response: "NYCHA accepts this recommendation and will continue to enforce program requirements."

3. Refer any Section 8 participant who appears to have made a material omission or a false statement to NYCHA in connection with their recertification to the New York City Department of Investigation.

NYCHA Response: "NYCHA accepts this recommendation and will continue to refer any cases of suspected fraud to the Office of the Inspector General."

4. Refer those participants who appear to have wrongly received property tax exemptions to the appropriate taxation authorities.

NYCHA Response: "NYCHA requests that the Office of the New York City Comptroller refer these cases directly to the appropriate taxation agencies for follow-up, since the Office of the New York City Comptroller is in possession of these relevant documentation and investigative results. In addition, NYCHA does not have the authority or expertise to enforce tax penalties."

Auditor Comment: We disagree. NYCHA is responsible for determining whether or not its own program participants are living at the location they receive the subsidies, especially where there indications they may be living somewhere else. If NYCHA determines that these participants are living at the subsidized address then it is their responsibility to alert the appropriate taxation authorities that the participants are falsely claiming tax exemptions. While the Comptroller's Office routinely refers evidence we find to appropriate authorities that does not absolve NYCHA of its responsibility for managing its programs and sharing information with other government agencies as appropriate.

5. Consider employing additional procedures to verify assets and income, including but not limited to the data matches we performed, to improve its verification of participant-reported information.

NYCHA Response: "NYCHA recognizes the potential benefits of employing additional verification techniques not required by HUD. NYCHA will need to conduct a cost benefit analysis to determine whether any expected benefit would outweigh the added administrative process and related cost."

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 period of this audit covered all Section 8 participants who were receiving subsidies (active) as of November 19, 2013. To gain an understanding of the Section 8 program, we reviewed the *Code of Federal Regulations, Title 24, Part 982–Section 8 Tenant Based Assistance: Housing Choice Voucher Program*; HUD Handbook 4350.3: *Occupancy Requirements of Subsidized Multifamily Housing Programs*; HUD Housing Choice Voucher Program Guidebook 7420.10G, and NYCHA's *Administrative Plan*.

To gain an understanding of NYCHA's controls over the verification of participant-reported information, we interviewed the various program administrators and personnel at NYCHA who are responsible for the Section 8 program. Specifically, we interviewed the Assistant Director of Central Office Operations, the Deputy Director for Bronx/Manhattan Transfers/Lease Renewals and Recertification, the Deputy Director of General Services, and a Housing Assistant Manager. In addition, we interviewed the Director of the Housing Management Division at HUD's New York Office. Further, we observed an actual recertification for a participant and flowcharted the recertification process. We documented our understanding of the controls and possibility of fraud through written narrative.

To achieve our objective, we obtained a list from NYCHA of all 225,004 individuals in the Section 8 program as of November 19, 2013. To determine whether the list provided by NYCHA was complete, we randomly selected 10 non-sequential gaps in the case numbers, which consisted of 31 different cases, from the list provided by NYCHA and searched NYCHA's database to determine if there were any active cases in those gaps. To further evaluate the completeness of the list, we compared the number of households on the list to the program statistics published on NYCHA's website as of June 2013.

To determine the accuracy of the list, we randomly selected 100 participants from the list and compared the information on the list to the information stored in NYCHA's database. To directly test the accuracy and completeness of NYCHA's database, we compared the information in the supporting documentation submitted by the participants to their associated information in NYCHA's database.

We also used those 100 files to determine whether NYCHA obtained the required documentation from the participants at recertification. Further, we reviewed each file to determine whether it contained evidence that NYCHA used EIV to verify various participant-reported information.

To determine whether NYCHA periodically utilized HUD's Deceased Tenants Report, Multiple Subsidy Report, and the Failed Verification Report, we requested and reviewed the relevant reports produced by HUD for NYCHA.

To identify participants who potentially own real property, we utilized LexisNexis' batch processing services. One thousand one-hundred and eighty Section 8 participants were initially linked to

1,557 property records. To determine whether the participants were the bona fide owners of the property, we reviewed deeds, tax records, and mortgages for each property with its respective municipality, county, or state. Any properties that were disposed of prior to March 1, 2014 or were falsely identified as belonging to the Section 8 participants were eliminated. Participants who were identified as appearing to own real property were then researched within NYCHA's database to determine whether the property was reported. For those participants who appear to own and did not report a single or multi-family property, we obtained a record of subsidy payments made on their behalf and then calculated all subsidy payments that were made as of the date of omission through February 2014 to determine the amount of subsidy affected. In addition, where applicable, we obtained property tax records to determine whether certain tax exceptions were being taken. Finally, we reviewed the property records to determine if any of the participants have an interest or previously had an interest in the property where they receive a Section 8 subsidy.

To identify program participants who were recently married, we obtained marriage records for the period of February 2011 through November 2013 and then performed a data match between the marriage records and the list of program participants along with their family compositions provided by NYCHA. We evaluated the results of the initial match to determine whether spouses are being reported to NYCHA. For those participants who did not report their spouse, we obtained a record of subsidy payments made on their behalf and then calculated all subsidy payments that were made as of the date of omission to February 2014 to determine the amount of subsidy affected. Finally, we compared City payroll records against the initial match to determine if any unreported spouses were City employees who were earning income.

Information Participants are
Required to Submit to NYCHA
During the Recertification Process¹¹

Information Category	Description	Type Of Documentation Required to be Submitted by Participant
Income	Wages	Previous year's W-2 for participant and verification form from filled out by employer stating the amount and frequency of pay for the past 12 months
	Social Security Administration Retirement or Disability Benefits	Certification of the benefit amount received by participant or household member
	Unemployment/Worker's Compensation	Copy of a current benefit notice or copy of a current check and list the last day of participant's employment
	Self-Employment	Gross receipts from business, ownership percentage, net profit from business, personal drawings from the business, business address and telephone number
	Child Support/Alimony	Name, address, and telephone number of the payer and copies of legal documents
	Public Assistance	Participant's public assistance Case ID number and the total amount of monthly benefits
	Pension/Annuity/Veteran's Pay	Full name of address of institution, total gross benefit amount, and a copy of the participant's most recent benefit statement
	Contributions	Name, address and telephone number of the income source provider along with documentation

¹¹ Other information participants have to submit during the recertification process, where applicable, are: documentation of unreimbursed medical/pharmacy/disability/expenses (deductible from income if exceeding 3% of household annual income), child care expenses for children in the household under 13 years of age, documentation of full-time student or job training status for all adults in the household over 18 years of age, affirmation of non-employment for all unemployed household members 18 years old or older, and, if applicable a disability status and reasonable accommodation form.

Information Category	Description	Type Of Documentation Required to be Submitted by Participant
Assets	Savings or Checking Accounts	Participant's most recent statement
	Stocks, Bonds, Money Market Funds, Certificate of Deposits, Trust Funds	
	Retirement Accounts	
	Lump Sum Payments (e.g. Inheritances, Insurance Payments or Settlements)	
	Life Insurance Policies	
	Assets Disposed in the Last Two Years	
Household Members	Legal Interest in Real Estate (House, Co-op, or Condo)	Signed statement for each property listing the type of property, address, percent ownership, date of purchase, original purchase price, amount of existing loans that includes name of the lender, current value, and income, if any, for the past year
	Add a Household Member	Social Security card and birth certificate (for a child), "Permanent or Conditional Permission Request for a Family Member/Additional Person to Live with a Section 8 Family" form (all other family members)
Other Required Forms	Remove a Household Member	Documentation of the departing member's new address (e.g. copy of the departed or departing member's lease or utility bills)
	Debts Owed to Public Housing Agencies and Terminations	
	Third Party Verification Consent to Release Form	
	Verification of Employment	Form signed by all household members over 18 years of age



NEW YORK CITY HOUSING AUTHORITY
90 CHURCH STREET • NEW YORK, NY 10007

TEL: (212) 306-3000 • <http://nyc.gov/nycha>

SHOLA OLATOYE
CHAIR & CHIEF EXECUTIVE OFFICER

Marjorie Landa
Deputy Comptroller for Audit
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

May 6, 2015

Re: Audit Report on the New York City Housing Authority's Procedures for the Verification of Section 8 Housing Choice Voucher Program Participant Reported Information (FM13-125A)

Dear Ms. Landa:

We write in response to the Office of the New York City Comptroller audit of NYCHA's Housing Choice Voucher Program (Section 8). We are pleased by the principal audit conclusion which confirms NYCHA's compliance with its annual recertification procedures. NYCHA adheres to verification protocols mandated by the U.S. Department of Housing and Urban Development (HUD) which requires NYCHA to use the HUD Enterprise Income Verification system to verify income. We also appreciate the audit bringing to our attention results from additional data matches, not required by HUD, that were performed by the Comptroller's office using City marriage records and third party property data. We are encouraged that, even taking into account such additional data verification, that over 98% of our Section 8 participants meet program reporting requirements.

We believe that the report's conclusions concerning potential NYCHA subsidy overpayments are overstated and susceptible of misinterpretation. For that reason, we want to take this opportunity to highlight that the report did not find that NYCHA made \$42.1 million of improper subsidy payments, but only that an undetermined portion of \$42.1 million of subsidy payments may have been paid to households who were not entitled to all or a portion of those benefits. In general, we found that the information identified by the Comptroller during the course of the audit concerning unreported household information would have had a minimal impact of NYCHA's subsidy payments.

Upon review of the 2,047 cases cited by the Comptroller's office, NYCHA determined that approximately 350 cases did not require follow-up because either a) the unreported spouse has since been added, b) the participant is no longer part of the Section 8 program, or c) the unreported spouse was married to a family member who has since been removed from the Section 8 household. NYCHA also reviewed approximately 100 cases to-date and found that all 100 households remain eligible for rental assistance. In order to provide a reasonable assessment of the extent of subsidy amount and eligibility issues, NYCHA is reviewing each case identified in

the Comptroller's report to determine how rental assistance will be impacted, if at all. Among the potential outcomes, there will be some participants who will experience a decrease in rental assistance paid by NYCHA as a result of the family's adjusted income increasing; others who may actually experience an increase in rental subsidy as a result of the family's adjusted income decreasing; and still others will have no change in the amount of rental subsidy paid.

In addition, NYCHA forwarded 38 cases to the Department of Investigation's Office of the Inspector General for NYCHA where the Section 8 participant purportedly failed to report a spouse who is a City employee. The Office of the Inspector General determined that 23 of the 38 cases did not warrant further review. The remaining 15 cases may present viable investigative leads, but the Office of the Inspector General cautions that "it is far more likely that the Section 8 subsidy would be subject to an *'income-based reduction'* as opposed to outright removal from the program". The Office of the Inspector General's response can be found in Appendix A, and case details can be found in Appendix B.

In its review of the cases cited for unreported real estate assets, the Comptroller's office used the market value of the owned property to estimate a participant's asset income for purposes of subsidy eligibility. However, using the market value inflates a participant's asset income. Asset income is factored into the Section 8 participant's adjusted income for rent calculation and is generally a fraction of the asset's market value. HUD regulations require that public housing authorities use the cash value of an asset to determine asset income. According to HUD, the cash value of a property is the market value of a property minus reasonable expenses required to convert the asset to cash. These expenses may include the cost to sell the property, like settlement costs, transaction fees, payment of mortgages and liens, legal fees, etc. Once the net value is calculated, it is imputed using an interest rate, specified by NYCHA in accordance with HUD guidelines, to determine the asset income.

Also, many of the findings related to real estate assets were found to be inconclusive leads. As a result, the audit appears to have reported a high percentage of false positives. NYCHA randomly selected and reviewed 42 of the 409 cases that purportedly failed to report real estate assets. Of these cases, 35 cases did not require additional follow-up since the participant was not receiving any rental assistance subsidies or the information provided by auditors had inconclusive property ownership information. In addition, approximately 24 participants owned or subleased cooperative shares (coops), which is permissible under the Section 8 program.

NYCHA forwarded 11 cases identified in the audit where the participant purportedly had a controlling interest in the subsidized unit to the Office of the Inspector General for further review. However, the Office of the Inspector General found that the majority of these cases were not viable leads. Of the 11 cases reviewed, 3 were owned by a religious entity or trust, property ownership was indeterminate for another, and 2 were purchased prior to the 1998 prohibition against family members owning the Section 8 unit. The remaining 6 cases are currently under review by the Office of the Inspector General. Case details from the Office of the Inspector General can be found in Appendix B. NYCHA is in the process of reviewing the remaining cases not under review by the Office of the Inspector General.

Overall, the audit focuses on 2,047 cases where possible reporting discrepancies were identified—409 participants that purportedly own unreported real estate property and 1,638

voucher holders that allegedly failed to report recent marriages to NYCHA. This number represents about 2% of the 93,500 Section 8 program participants at the time of the review.

NYCHA recognizes the potential benefits of employing additional verification techniques such as the data matching undertaken by the Comptroller's office, even though not required by HUD. NYCHA appreciates the Comptroller's analysis and recommendations, and will conduct a cost benefit analysis to determine whether the expected benefit of the recommended data matching strategies outweighs any added administrative process and costs. HUD advises public housing authorities to use a cost benefit approach with respect to independent verification of certain income information. HUD regulations state that "HUD and the PHA shall not be required to pursue these verification procedures when the sums of money at issue are too small to raise an inference of fraud or justify the expense of independent verification and the procedures related to termination, denial, suspension, or reduction of assistance¹."

Going forward, NYCHA will continue to enforce Section 8 program requirements. Proactively, we have also taken steps to remind residents of their responsibility to accurately report information, such as family composition, income, and assets, as part of program requirements. In addition, NYCHA is also working to expand a simplified annual certification process online which will make it easier for tenants to report required information and family changes.

Participants who willfully omit or misrepresent information risk losing the rental subsidy and criminal prosecution. NYCHA thoroughly reviews instances of potential fraud and refers cases to the NYCHA Fraud Unit or the Department of Investigation's Office of the Inspector General for further investigation. NYCHA has already forwarded a total of 49 cases cited in this audit, 38 related to a potential unreported spouse and 11 related to a potential unreported asset, to the Office of the Inspector General for investigation. In 2014, the Office of the Inspector General received 567 complaints alleging Section 8 fraud, and opened 82 investigations. Since 2009, the Office of the Inspector General, initiated 184 criminal referrals, made 130 arrests, and signed 47 stipulations in lieu of arrest related to NYCHA's Section 8 program. In addition, 208 referrals for administrative action and 74 terminations of subsidies were initiated.

We thank you for bringing these audit findings to our attention.

Sincerely,



Cathy Pennington
Executive Vice President for Leased Housing
New York City Housing Authority

¹ HUD regulation 24 C.F.R. § 5.236(b)(4)

**New York City Housing Authority
Response to NYC Comptroller Recommendations**

AUDIT RECOMMENDATIONS

- 1. Determine whether those participants we identified in this audit as possibly having failed to report ownership of real property or marriages have, as a result, received Section 8 benefits to which they were not entitled, whether they are currently entitled to any benefits, and if so, in what amounts.**

NYCHA accepts this recommendation and will continue to follow-up with households identified in the audit as failing to report a spouse. Of the 1,638, NYCHA determined that 352 did not require any follow-up as participants are no longer part of the program, have since reported the household change, or had a family member who was married removed from the family composition. Of the remaining 1,286, NYCHA contacted 100 of these participants and determined that all 100 of these participants remain eligible for rental assistance because, as acknowledged by the auditors, the majority of unreported spouses are unemployed, under-employed, or low wage earners. NYCHA is reviewing each case to determine how rental assistance will be impacted. It is anticipated that some participants will experience a decrease in rental assistance paid by NYCHA as a result of the family's adjusted income increasing; others will experience an increase in rental subsidy as a result of the family's adjusted income decreasing; and others will have no change in the amount of rental subsidy paid.

In addition to the 100 cases reviewed, NYCHA has notified all of the remaining households of their potential failure to properly report their family composition. The notification included detailed instructions on how participants must update their information and reminded them of their reporting obligations. NYCHA recently enhanced its Tenant Self-Service Portal to enable participants to update their family composition online. Based on the information reported by the tenant, NYCHA will recalculate the family income and determine revised rent share. Families will be notified of any changes to their rent share and that failure to comply may result in the termination of their Section 8 subsidy.

In regards to the 409 participants who have unreported real estate assets, NYCHA has reviewed over 42 cases to-date and found 35 cases that did not require additional follow-up since the participant was not receiving any rental assistance subsidies or the information provided by auditors had inconclusive property ownership information. In addition, approximately 24 participants owned or subleased cooperative shares (coops), which is permissible under the Section 8 program. NYCHA is in the process of notifying the remaining cases through our Tenant Self-Service Portal so that participants can update asset information or dispute findings.

NYCHA referred 11 cases to the Office of the Inspector General for investigation.

2. Take any appropriate action under the Section 8 program against those participants who have omitted information and/or made false statements to NYCHA in connection with the program.

NYCHA accepts this recommendation and will continue to enforce program requirements. Participants who willfully omit or misrepresent information risk losing their subsidy as well as criminal prosecution. NYCHA will review each case identified in the audit and will continue to refer any suspicious cases to the NYCHA Fraud Unit or the Department of Investigation's Office of the Inspector General.

To-date, NYCHA has referred 49 cases to the Department of Investigation's Office of the Inspector General where the participant or household member purportedly married a City employee but failed to report the new spouse to NYCHA, or allegedly improperly owns the apartment in which he or she resides and receives rental subsidies. The Office of the Inspector General found that 29 of the 49 referrals (59%) did not merit further investigation. The Office of the Inspector General opened investigations on the remaining 20 cases.

The Office of the Inspector General routinely investigates allegations of Section 8 fraud. In 2014, the Office of the Inspector General received 567 complaints alleging Section 8 fraud, and opened 82 investigations. Since 2009, concerning NYCHA's Section 8 program, the Office of the Inspector General has initiated 184 criminal referrals, 130 arrests and 47 stipulations signed in lieu of arrest, 208 referrals for administrative action, and 74 terminations of subsidies.

A summary of the Office of the Inspector General's findings can be found in Appendix A, and case details can be found in Appendix B.

3. Refer any Section 8 participant who appears to have made material omissions or false statements to NYCHA in connection with their recertification to the New York City Department of Investigation.

NYCHA accepts this recommendation and will continue to refer any cases of suspected fraud to the Office of the Inspector General.

In 2014, the Office of the Inspector General received 567 complaints alleging Section 8 fraud, and opened 82 investigations. To-date, NYCHA has referred 49 cases to the Office of the Inspector General where the participant or household member purportedly married a City employee but failed to report the new spouse to NYCHA, or improperly owns the apartment in which he or she resides and receives rental subsidies. Of the total cases referred, 29 of the cases referred required no additional review and investigations were opened for 20 cases.

A summary of the Office of the Inspector General findings can be found in Appendix A, and case details can be found in Appendix B.

4. Refer those participants who appear to have wrongly received property tax exemptions to the appropriate taxation authorities.

NYCHA requests that the Office of the New York City Comptroller refer these cases directly to the appropriate taxation agencies for follow-up, since the Office of the New York City Comptroller is in possession of these relevant documentation and investigative results. In addition, NYCHA does not have the authority or expertise to enforce tax penalties.

5. Consider employing additional procedures to verify assets and income, including but not limited to the data matches we performed, to improve its verification of participant-reported information.

NYCHA recognizes the potential benefits of employing additional verification techniques not required by HUD. NYCHA will need to conduct a cost benefit analysis to determine whether any expected benefit would outweigh the added administrative process and related cost.

HUD authorizes public housing authorities to use a cost benefit approach with respect to independent verification of certain income information. HUD regulation 24 C.F.R. § 5.236(b)(4) explicitly states "HUD and the PHA shall not be required to pursue these verification procedures when the sums of money at issue are too small to raise an inference of fraud or justify the expense of independent verification and the procedures related to termination, denial, suspension, or reduction of assistance". However, we will certainly consider additional verification measures further if warranted.



APPENDIX A

The City of New York
Department of Investigation

MARK G. PETERS
COMMISSIONER

80 MAIDEN LANE
NEW YORK, NY 10038
212-825-5900

December 17, 2014

Hon. Scott Stringer
New York City Comptroller
One Centre Street
New York, NY 10007

Re: **Section 8 Certification and
Recertification Process Audit**

Dear Comptroller Stringer,

The Department of Investigation's Office of the Inspector General ("OIG") for the New York City Housing Authority ("NYCHA") has reviewed the information provided by the Comptroller's Office to NYCHA and the OIG that forms the basis of your upcoming audit of NYCHA's Section 8 Certification and Recertification Process.¹ In particular, the OIG has closely analyzed the following data sets: 1) thirty-eight (38) instances in which the Comptroller's Office indicated that a Section 8 tenant or household member had married a City employee but failed to report his/her new spouse to NYCHA as part of the household composition; and 2) eleven (11) instances in which the Comptroller's Office reportedly identified Section 8 tenants who improperly own the apartments in which they reside and receive rental subsidies.

After examination of these two data sets, OIG has determined that 20 of the 49 above-referenced instances may constitute viable investigative leads, and we have accordingly opened those cases for investigation.² However, following review of the data referred by the Comptroller's Office, the OIG has further determined that the remaining referrals do not present viable investigative leads and will not be opened for investigation at this time.³

¹ On September 30, 2014, OIG and other NYCHA staff attended a pre-exit meeting with your Audit Manager James Icobelli, Audit Supervisor Tom Johnson, and Auditor Roberto Di Leo, in which your staff discussed the findings in your soon-to-be-released audit. Subsequently, your staff forwarded the underlying data files to NYCHA.

² See Appendix A, which lists the cases that the OIG has opened for investigation.

³ See Appendix B, which lists the cases that do not apparently present viable investigative leads, including a brief explanation of the inconsistencies in each case.

The OIG's determination that 29 of the 49 referrals do not warrant further investigation is based upon the following considerations:

- 3 of the residents who recently married City employees are relatives of the head of household and the newly married residents subsequently moved out of the Section 8 apartment and were, or are in the process of being, duly removed from the Section 8 household composition;
- 12 files provided by the Comptroller's Office included inconclusive address information for the City employee spouse based upon LexisNexis research with insufficient corroboration;
- 5 of the purported City "employee" spouses were not full-time City employees but rather had minimal or no income (for example, one spouse reported working as a poll worker, and another participated in a job training program for three months), such that any financial impact on NYCHA would be de minimis;
- 2 of the tenants' Section 8 subsidies have already been suspended by NYCHA, and 1 tenant ported her voucher out-of-state in 2012;
- 4 files from the Comptroller's Office alleging improper ownership contained inconclusive property ownership information; and
- 2 of the improper ownership cases were based on tenants who appear to have a familial relationship with the Section 8 landlord, but are "grandfathered in" in pursuant to pre-1998 HUD and NYCHA rules.

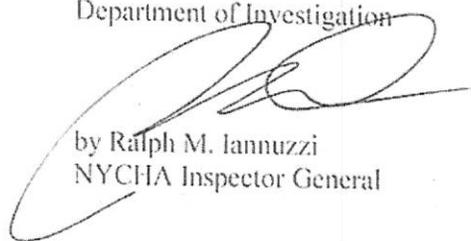
In a September 2014 meeting with NYCHA and OIG staff, your audit team claimed that in the aggregate, the multiple categories of Section 8 tenants identified by your office improperly received as much as \$40 million in housing subsidies from NYCHA. The OIG has been unable to verify this level of potential fraud. The OIG has determined that, in calculating the potential fraud, the Comptroller's Office relied upon several erroneous investigative assumptions, including the premise that if a spouse in fact resides in the Section 8 apartment, the change in household composition would immediately result in the outright *termination* of the full housing subsidy. In reality, for the fraction of referrals from your office that appear viable, it is far more likely that the Section 8 subsidy would be subject to *income-based reduction*, to be assessed at the time of the household's annual income recertification.

OIG has a robust investigative capacity and extensive experience at identifying fraud and other improprieties in NYCHA's programs. Since 2009, OIG has investigated hundreds of allegations of Section 8 fraud, which resulted in 184 criminal referrals, 130 arrests and 47 stipulations signed in lieu of arrest, 208 referrals for administrative action, and 74 terminations of subsidies. Through these investigations, the OIG has identified over \$6.6 million in fraud. We look forward to working with the Comptroller's Office to further our shared mission of reducing fraud and waste at NYCHA.

If you have any questions or wish to discuss this review, please contact NYCHA Inspector General Ralph Iannuzzi at (212) 306-8316.

Very truly yours,

Mark G. Peters
Commissioner
Department of Investigation

A handwritten signature in black ink, appearing to read 'R. Iannuzzi', is written over the typed name below.

by Ralph M. Iannuzzi
NYCHA Inspector General

cc: Shola Olatoye, NYCHA Chair & Chief Executive Officer
Cathy Pennington, NYCHA Executive Vice-President for Leased Housing
Brenda Keating, NYCHA Director of Audit

APPENDIX B

COMPTROLLER'S AUDIT INDICATED THAT SECTION 8 TENANT MARRIED A CITY EMPLOYEE:

Residents who married City employees are relatives of the Head of Household and have been or are being removed from the Section 8 household composition:

1. Case # XXX0241 – Son of Section 8 tenant, who is an authorized occupant of the Section 8 apartment, was married in August 2013. NYCHA's Leased Housing database lists the son's tenancy as "Pending Deletion" from the family composition.
2. Case # XXX7383 – Daughter of Section 8 tenant, who was an authorized occupant of the Section 8 apartment, was married on August 17, 2013. NYCHA's Leased Housing database indicates that the family duly removed daughter from the Section 8 household in July 2014.
3. Case # XXX8217 – Son of the Section 8 tenant was removed from the family composition in April 2011. Further, spouse does not appear in CHRMS, and therefore, does not appear to be a city employee.

Comptroller's Office provided inconclusive information, especially concerning spouse's residence address:

4. Case # XXX3658 – Both Section 8 tenant and spouse/city employee list the Section 8 address on their marriage certificate. However, Lexis, New York State Department of Motor Vehicles (DMV), and the City's Human Resource Management System (CHRMS) link the spouse to a non-Section 8 address.
5. Case # XXX0435 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, Lexis, DMV and CHRMS do not link the spouse to the Section 8 address.
6. Case # XXX8767 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, Lexis, DMV and CHRMS link spouse to non-Section 8 addresses.
7. Case # XXX5067 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, Lexis, DMV and CHRMS link spouse to a non-Section 8 address.
8. Case # XXX0155 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, DMV and CHRMS link spouse to a non-Section 8 address.
9. Case # XXX7876 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, Lexis, DMV and CHRMS link spouse to a non-Section 8 address.
10. Case # XXX0493 – Section 8 tenant and spouse/city employee list the same address on their marriage certificate. However, DMV and CHRMS link spouse to a non-Section 8 address.
11. Case # XXX2988 - Spouse/city employee does not list the Section 8 apartment as her address on the marriage certificate. Further, Lexis, DMV and CHRMS link spouse to a non-Section 8 address.
12. Case # XXX4510 - Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, Lexis, DMV and CHRMS link spouse to a non-Section 8 address.
13. Case # XXX3270 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, Lexis, DMV and CHRMS link spouse to a non-Section 8 address.

14. Case # XXX9381 – Son of the Section 8 tenant, who is an authorized occupant of the Section 8 apartment, was married in November 2013. Spouse/city employee does not list the Section 8 address on the marriage certificate and Lexis, and CHRMS link spouse to a non-Section 8 address.
15. Case # XXX0213 – Spouse/city employee does not list the Section 8 apartment as his address. Further, Lexis, DMV and CHRMS link spouse to a non-Section 8 address.

Purported City "employee" spouses were not full-time City employees:

16. Case # XXX1427 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. DMV links spouse to a non-Section 8 address. CHRMS does link spouse to the Section 8 address, but spouse's purported City employment was participation in job training from June 28, 2013 to September 12, 2013.
17. Case # XXX1303 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, DMV and CHRMS link the spouse to a non-Section 8 address. Lastly, spouse was employed with the City only from June 2013 through August 2013.
18. Case # XXX1551 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Further, DMV and CHRMS link spouse to a non-Section 8 address. Lastly, Spouse was only employed with the City from February 2012 through September 2013.
19. Case # XXX5301 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Lexis and DMV do not link spouse to Section 8 apartment. Further, spouse's purported City employment was as a "poll worker."
20. Case # XXX4912 – Spouse/city employee does not list the Section 8 apartment as his address on the marriage certificate. Lexis, DMV and CHRMS link spouse to a non-Section 8 address. Further, spouse has been suspended from his City employment since April 2014.

Section 8 subsidies have been suspended by NYCHA or ported out-of-state:

21. Case # XXX2886 – Section 8 tenant has not received Section 8 subsidies from NYCHA since September 2012 due to excess income (she earned too much from her own City employment to receive benefits from NYCHA).
22. Case # XXX9815 – Section 8 tenant of record ported her Section 8 voucher to Maryland in October 2012.
23. Case # XXX2773 – Section 8 tenant and spouse/city employee both list the same address on their marriage certificate. However, spouse is not linked to Section 8 apartment through Lexis, DMV or CHRMS. Further, Section 8 tenant's subsidy has been suspended since November 2013.

COMPTROLLER'S AUDIT INDICATED THAT SECTION 8 TENANT IMPROPERLY OWNS THE SECTION 8 PROPERTY:

Comptroller's Office provided inconclusive information concerning tenant's purported ownership of the Section 8 property:

24. Case # XXX9223 – Section 8 property is owned by a religious entity, which is not clearly linked to Section 8 tenant.
25. Case # XXX5767 – Section 8 property is owned by a religious entity, which is not clearly linked to Section 8 tenant.
26. Case # XXX9762 – Section 8 property is owned by a trust, which may be permissible under Leased Housing/HUD rules.
27. Case # XXX7908 – ACRIS and other databases are negative for tenant owning the Section 8 property. Unable to determine if female owner is daughter/relative of tenant.

Section 8 tenants may have familial relationship with owner but are "grandfathered in":

28. Case # XXX3481 -- Family member of the Section 8 tenant purchased the property in the 1990's, prior to the 1998 prohibition against family members owning a Section 8 property.
29. Case # XXX2904 – Family members of Section 8 tenants purchased the property in the 1990's, prior to the 1998 prohibition against family members owning a Section 8 property.