Thomas P. DiNapoli
State Comptroller

110 State Street
Albany, New York 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 4, 2024

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

Re: Housing Trust Fund Corporation: Internal Controls Over and Maximization of Federal Funding for Various Section 8 Housing Programs and the COVID Rent Relief Program
Report 2024-F-21

Dear Commissioner Visnauskas:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of Homes and Community Renewal (HCR) to implement the recommendations contained in our initial audit report, *Housing Trust Fund Corporation: Internal Controls Over and Maximization of Federal Funding for Various Section 8 Housing Programs and the COVID Rent Relief Program* (Report 2022-S-28).

Background, Scope, and Objective

HCR is the State's affordable housing agency, with a mission to build, preserve, and protect affordable housing and increase homeownership throughout the State. HCR comprises several different offices and agencies, including the Housing Trust Fund Corporation (HTFC). Through HTFC, HCR receives federal funding from the U.S. Department of Housing and Urban Development (HUD) to administer the Section 8 Housing Choice Voucher Program (HCV) and the Section 8 Performance-Based Contract Administration Program (PBCA) across the State. HCR also offers Security Deposit Assistance (SDA), which covers the cost of security deposits for tenants entering into new lease agreements. SDA was a temporary initiative started as a result of the COVID-19 pandemic but has been continued by HCR to increase utilization. In addition, HCR administered the now-ended COVID Rent Relief Program (COVID RRP), which was established by the State as part of the Emergency Rent Relief Act of 2020 to provide emergency rental assistance to eligible low-income households experiencing a severe rent burden due to loss of income during the COVID-19 pandemic.

HCV enables low-income households in the State to rent or purchase decent, safe housing in the private housing market by providing rental and homeownership assistance. HCV is executed through an Annual Contributions Contract with HUD, which authorizes a certain number of housing vouchers that may be issued each year, as well as annual appropriations by Congress to fund the contract. HCR must have both the authority to issue a voucher and the funds available for each voucher. HUD monitors HCV performance by determining the percentage of voucher and budget utilization achieved.

HCR contracts with Local Administrators (LAs) to manage the HCV program at the local level. This includes administering Housing Assistance Payments (HAPs) and ensuring properties are maintained in accordance with HUD's minimum housing quality standards (HQS). Any HAP funds that are disbursed but not spent during the calendar year are retained in an HCR-held HAP reserve called Restricted Net Position. In addition, any excess HAP funds that are obligated but not disbursed are maintained in HUD-held program reserves. HAP reserves, which include both the HCR-held Restricted Net Position reserves and the HUD-held program reserves, can be used to make HAPs on behalf of eligible program participants. In addition to funding HAPs, HUD pays HCR a monthly administrative fee to cover administrative program costs. All excess administrative fees paid by HUD that are not expended by HCR during a calendar year must be held in an administrative fee reserve and contribute to HCR's Unrestricted Net Position. LAs must conduct physical HQS inspections of each unit under contract at least annually to determine if the unit is decent, safe, and sanitary.

HCR received over $16 billion in federal funding between April 2017 and July 2024, including about $11.9 billion PBCA funds, $4 billion standard HCV funds, and $79 million through the CARES Act.

The objectives of our initial audit, issued on March 16, 2023, were to determine whether HCR had established and maintained adequate internal controls to oversee and monitor the federally funded HCV, PBCA, and COVID RRP programs to ensure they meet requirements; and whether HCR was obtaining federal reimbursements on time and in a manner that recovers all eligible costs. The audit covered the period from January 2017 through March 2022. We found improvements could be made in several areas, including HCV voucher allocation and utilization and management of reserves. HCR was not fully utilizing its HUD-authorized HCV vouchers or budget to help families in need of housing assistance. Additionally, HCR did not meet HUD's standard 95% HCV voucher utilization threshold during any year covered by the initial audit scope despite having significant reserves available to improve utilization. This included both HAP reserves to directly fund housing subsidies and administrative reserves that could have been used to increase participation throughout the State. Further, HCR could not fully reconcile its HCV financial figures, including funding available, reserves, and spending. We also found several areas that HCR could improve to better address health and safety concerns, which could otherwise potentially result in injury to tenants and in HUD recouping excess reserves or reducing allocations for future award years. Lastly, the SDA initiative lacked internal controls to ensure recipients were eligible and payments were accurate.

The objective of our follow-up was to assess the extent of implementation, as of September 2024, of the four recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

HCR officials made progress in addressing the problems we identified in the initial audit report. Of the initial report's four audit recommendations, two were implemented, one was partially implemented, and one is no longer applicable.

Follow-Up Observations

Recommendation 1

Fully investigate and identify barriers to optimizing HCV vouchers and funding and, based on the results, develop and implement strategies to increase utilization and prevent potential reduction or loss of federal funds. This should include but not be limited to increased use of reserve funds.

Status – Not Applicable

Agency Action – Since we issued our initial audit report, the HCV program has experienced budgetary challenges. According to an HCR analysis, Fair Market Rents increased an average of 20% statewide between 2022 and 2024. Rising rent costs resulted in increased HAPs and caused HCR to spend more of its annually authorized budget during calendar years 2022 and 2023. HCR's HAP spending totaled 98% of its annual budget in 2022 and over 100% in 2023. As a result, HCR-held HAP reserves dropped from a balance of approximately $330,000 in December 2021 to a deficit of over $8.3 million as of December 2023.

As a result of its current reserve deficit, HCR is eligible for additional HUD funding. These additional funds became available through offsets HUD made against excess reserves being held by other public housing agencies. Initially announced by HUD in May 2024, the shortfall funding will total up to $200 million and is available to public housing agencies that, despite taking reasonable cost savings measures, would otherwise be required to terminate participating families from the HCV program due to insufficient funding. HCR applied for the shortfall funding in May 2024. One of the requirements to receive this funding is for applicants to immediately stop issuing new HCV vouchers. HUD approved HCR's application and is currently in the process of determining the amount of funding HCR will receive. HCR officials said they anticipate that HUD will make this determination at the end of calendar year 2024.

Recommendation 2

Develop and implement solutions to financial management systems to improve the reliability and usability of programmatic financial data.

Status – Partially Implemented

Agency Action – In October 2023, HCR implemented a new data solution system. According to HCR officials, the new system improved the operation of the HCV and other programs by maintaining valuable real-time programmatic data. HCR's previous system required monthly reporting by individual LAs, creating a lag in current data. However, the new system did not improve the reliability or usability of high-level financial data, including funding, reserves, and spending. We reviewed financial data for calendar years 2021–2023 and found that HCR was unable to reconcile its HCR-held HAP reserves for 2021, 2022, and 2023 and its Unrestricted Net Position for 2021 and 2022. Officials said their inability to fully reconcile reserves is because HCV is a large program that changes frequently. However, HCR officials also stated that continuing to improve their financial systems is a priority for 2025.

Recommendation 3

Improve controls over HQS inspections to ensure that deficiencies identified during inspections are remedied within HUD-prescribed time frames and that inspection standards are consistent across LAs.

Status – Implemented

Agency Action – Since our initial audit, HCR has implemented additional controls over HQS inspections to ensure that deficiencies are remedied within HUD-prescribed time frames and that inspection standards are consistent across LAs. In November 2022, HCR contracted with a third party (Contractor) to conduct Quality Control (QC) inspections over HQS inspections completed by LAs. The Contractor randomly selects a sample of units that have been inspected by LAs within the previous 90 days and conducts QC re-inspections of the units. Following the QC re-inspections, the Contractor notifies LAs and HCR of all inspection results. Under the terms of its contract, the Contractor must notify LAs of emergency (life-threatening) HQS deficiencies immediately and non-emergency (non-life-threatening) deficiencies within 2 days. LAs are required to re-inspect any units with deficiencies to ensure owners and/or tenants make the required repairs within 24 hours for emergency deficiencies and 30 days for non-emergency deficiencies. Lastly, the Contractor provides LAs and HCR with trending reports of commonly failed items, LA QC scores, follow-up work performed, and the full inspection checklists. We reviewed a summary of the Contractor's QC inspection results that occurred between January 2023 and July 2024. The Contractor conducted 1,053 QC inspections—covering 26 LAs in 49 counties—that resulted in 592 passes and 461 fails, including 331 emergency deficiency fails. HCR officials also have access to HQS inspections recorded by LAs in the new data solution system.

Recommendation 4

Develop and implement internal controls over the SDA.

Status – Implemented

Agency Action – Since our initial audit, HCR has implemented SDA auditing procedures to improve its controls over the SDA initiative. According to the new procedures, HCR will randomly select 10% of SDA payments made during each audit period and review documentation to assess whether eligibility determinations and payment amounts were correct. The procedures detail what documentation HCR auditors must review, such as executed leases, issued SDA checks, and payment calculations. At the conclusion of the audit, HCR auditors will issue findings letters and corrective action plans to LAs as necessary. HCR auditors will also present a summary of audit findings to HCR management officials. HCR plans on conducting SDA audits annually for as long as the initiative is in effect.

As of September 2024, HCR was in the process of conducting its first SDA audit and had finished its review of 28 LAs. We reviewed documentation for the LA for a sample of five counties and determined that HCR followed its new SDA auditing procedures.

Major contributors to this report were Raymond Barnes, Ryan Gregory, Abu Hossain, and Norris Wilson.

HCR officials are requested, but not required, to provide information about any actions planned to address the unresolved issues discussed in this follow-up within 30 days of the report's issuance. We thank the management and staff of HCR for the courtesies and cooperation extended to our auditors during this follow-up.

Very truly yours,

Andrea LaBarge
Audit Manager

cc: Sean Fitzgerald, Homes and Community Renewal