

**Nassau County
Office of the Comptroller**



**Limited Review of the
Office of Housing and Community Development
Grants Administration**

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Comptroller

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OFFICE OF THE COMPTROLLER

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Executive Summary

Background:

The Office of Housing and Community Development (“OHCD”) administers approximately \$24 million in federal and state grants annually. Our review of the administration of these grants determined that there had been significant mismanagement from 2007 – 2011 by a former Director of the County’s Section 8 Voucher Program. This mismanagement culminated in overspending in this area above the associated revenue received and resulted in a shortfall of \$6.2 million. This grant fund shortfall was charged to the County’s General Fund in 2011.

Summary of Significant Findings:

- An overstatement of anticipated revenue for Section 8 on documents submitted annually to the Office of Management and Budget (“OMB”) and the Nassau County Legislature resulted in an inflated Budget being authorized by the Legislature for the four year period beginning April 1, 2007 through March 31, 2011.
- The inflated Budget for 2007- 2011 permitted unrestrained spending on additional employees, consultants and furniture which may have contributed to layoffs and necessitated the write-off of the \$6.2 million to the County’s General Fund in 2011, when the issue was discovered.
- There is a potential termination pay liability, extending to 2015, resulting from the layoffs of excess employees in 2011 and 2012 totaling \$292,296. There is also additional potential liability for pension costs that OHCD is still calculating.
- OHCD was not performing adequate reconciliations of the grant revenues to grant expenditures, as required by both the Federal Office of Management and Budget, as well as generally accepted accounting principles.
- The former Director and formal Fiscal Manager allegedly misused two bank accounts used to administer Village Housing Authorities. Neither of these accounts belongs to the County. Further, there were payments made that appear to be unrelated to the administration of the related County or grant funded housing programs.
- Payments totaling \$125,700 were made to an individual who is related to the former Fiscal Manager, with no evidence that such payments were for a legitimate business purpose. This matter is under investigation by law enforcement authorities.
- Work was performed to provide homeless shelter services, for the period December 2010 to April 2011, pursuant to an unexecuted contract with the County in direct contravention of County policies and procedures, resulting in potential liability to the County in excess of \$200,000.
- \$120,000 worth of modular furniture was authorized and purchased by the former Director in early 2011 and has never been used. The expense for this purchase was paid for out of Section 8 funds and is part of the \$6.2 million write-off.
- A \$100,000 contract for foreclosure counseling for work performed in 2009 did not follow established County procurement procedures. This contract was also paid for with

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Section 8 funds. The billing associated with this contract also contained irregularities, including duplicate billings and billings for two days when the consultant was at an out of state conference.

- In April 2011 the County Executive issued a directive stating that copies of bank reconciliations relating to Homelessness Prevention Funds were to be sent to both the Office of the County Comptroller and the Office of the County Treasurer. Contrary to that Directive, the former Director of OHCD failed to reconcile a bank account designated for disbursement to eligible individuals. Over \$3.3 million has been disbursed from this account, which is not recorded in the County's financial system.
- The method for paying grant fund employees has caused OHCD recurring payroll issues as OHCD staff is primarily grant employees. This has resulted in the department not having enough funds available to pay their employees without a Board Transfer authorized by the County Legislature.
- A terminated employee was paid \$3,913 in 2011 for days that the employee was not entitled to, due to the Department not reconciling the employee's leave balances in a timely manner.
- There was no process in place to ensure continuity in administration of the grants, record keeping and program management in order to ensure adequate knowledge and experience in grants management, as required by federal guidelines.¹

Significant Recommendations:

OHCD should:

- Ensure that the annual grant budgets submitted to the Office of Management and Budget and the County Legislature are properly supported by documentation from the granting authority regarding anticipated revenue.
- Continue analyzing the workflow process to determine which positions are most critical and train staff in grants management to properly monitor the grants. In addition, OHCD should consider the need for continuity in the administration of grant programs.
- Establish policies for grants administration that include periodic quarterly reconciliations to properly match revenues with the corresponding expenses. In addition, ensure that the Single Audit questionnaires required by the Comptroller's Office are submitted timely and with adequate supporting documentation.
- Continue to assist United States Department of Housing and Urban Development ("HUD") in reviewing payments made through the two Village Housing bank accounts, including attempting to recoup the \$125,700 payment to a relative of the Former Fiscal Manager.

¹ United States Office of Management and Budget A-133 Compliance Supplement, page 6-2 (March 2011).

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- Work with the Office of the County Attorney to resolve the potential liability for services performed on an unexecuted contract.
- Contact the County's Facilities Office to determine if there is a need for the \$120,000 worth of unused furniture by another Department or if this furniture should be listed for bids and sold to recoup some of the funds.
- Ensure that all contracts follow County procurement procedures and that there is a departmental claim review process before submission to the Comptroller's Office for payment. The Department should confirm that all claims for payments are supported by adequate documentation.
- Reconcile all bank accounts in a timely manner; copies of all bank reconciliations should be forwarded to the County Treasurer and the County Comptroller.
- Ensure that the Administration and Office of Management and Budget are advised of the \$292,295 estimated termination pay liability as well as any associated pension costs; if additional terminations occur this year, revise these estimates accordingly.
- Consider, in consultation with the Office of Management and Budget, setting up a general fund account to pay one quarter's salary expense; this would, in turn, require OHCD to prepare the appropriate journal entries allocating actual salary expense.
- Pursue, through the Office of the County Attorney, the recovery of the \$3,913 overpayment to a former employee.

The matters covered in this report have been discussed with officials of the Office of Housing and Community Development during this review. On October 3, 2012, we submitted a draft report to the Office of Housing and Community Development for its comments. The Office of Housing and Community Development's comments and our responses to those comments are included as Appendix B to this report.

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Introduction

Background

The current County Executive established the Office of Housing and Community Development (“OHCD”) on April 18, 2011, by merging the Office of Housing and Homeless Services (“OHHS”) with the Office of Community Development (“OCD”). Previously, the Department consisted of the Office of Housing and Intergovernmental Affairs (“OHIA”), the Office of Housing and Homeless Services (“OHHS”), and OCD.

The OHCD is the local administrator for the New York State Division of Housing and Community Renewal (“NYS HCR”). NYS HCR receives its funding from the United States Department of Housing & Urban Development (“HUD”). Most major OHCD programs and grants are 100% federally funded.

OHCD acts as Nassau County’s agent in securing grants from HUD and New York State. OHCD must follow both HUD and New York State regulations and grant terms in administering the grants it receives. The mission of OHCD is to provide affordable and sustainable housing for the County’s most at risk population; to revitalize eligible neighborhoods throughout Nassau County; to work to attract, retain and expand business, and to facilitate the redevelopment of contaminated properties (Brownfields) in the County.² The OHCD is led by an Executive Director (John Sarcone) who has been Director since April 2011.

Review Scope, Objective and Methodology

The primary focus of the audit was to review OHCD’s administration and reconciliation of the grants it receives from the Federal government and New York State. The audit period covered 2009 through 2011.

In most instances, we reviewed grants on a fiscal year basis. Grant periods were either the period April 1 to March 31 or the period September 1 to August 31 of each year. The audit included a review and evaluation of the internal controls over the entire grant management process to accomplish the following:

- Determine if the annual grants budget process was accurate, as this is the spending authority for the entire department’s yearly budget of approximately \$24 million dollars;
- Determine if grants were reconciled on an annual basis and assess the size and magnitude of any un-reconciled grants;
- Ensure that grants that are no longer active have been closed in the County’s financial system;

² Nassau County Office of Management & Budget, Proposed Budget: Summary of Fiscal 2012 (September 2011).

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- Verify that grant revenues and expenses were properly recorded in the County’s financial system and identified for Single Audit³ reporting purposes;
- Determine that appropriate procedures were in place to monitor and verify expenditures and ensure that they did not exceed allowable limits;
- Review the procedures in place to monitor contractors and sub-recipients receiving grant funds;
- Ensure that grant expenditures were matched against the appropriate revenues; and
- Review the controls in place over grantee reporting and verify that required annual reports were prepared and submitted in a timely manner.

We interviewed key personnel to determine how fiscal duties were structured and how compliance with the federal regulations contained in United States Office of Management and Budget Circular No. A-133⁴ was ensured. We examined grant documents, including grant agreements, contracts, participant reports and program manuals. We analyzed schedules and financial reports, including reconciliations, monthly fee computation schedules, and revenue and expense reports from Nassau County’s Integrated Financial System (“NIFS”) and HUD’s financial system.

As part of the audit, we reviewed the organization structure and staffing levels at OHCD, as significant reductions in staff size and extensive employee turnover have occurred. We examined staffing changes and reorganizations in order to determine if sufficient, qualified employees are in place to maintain grant program financial records and to ensure that there is continuity over grant administration and management.

We did not perform any HUD grant compliance testing since program reviews by HUD were ongoing during our field work.

We believe our audit provides a reasonable basis for the audit findings and recommendations contained herein.

We would like to acknowledge the full cooperation of the OHCD’s management and staff during the course of this audit.

³ Entities that receive more than \$500,000 in federal funds are subject to audit requirements that are commonly referred to as Single Audits. On an annual basis, the County’s current external audit firm, Deloitte & Touche LLP, conducts a Single Audit of the Federal financial assistance programs administered by the County. This audit encompasses several OHCD grant programs, including the Emergency Shelter Grants Program and Community Development Block Grants.

⁴ United States Office of Management and Budget (“OMB”) Circular No. A-133 sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of states, local governments and non-profit organizations that expend Federal awards.

Findings and Recommendations

Review Finding (1):

The Former Director Submitted Inflated Spending Budgets to the County Legislature from 2007-2010

Department Heads appear annually before the Nassau County Legislature for approval of its proposed budget. Grants require a separate Supplemental Appropriation to establish a grant fund revenue and expense budget in NIFS approved by the Legislature. All operating expenses of the former OHHS department (also known as Section 8) are funded through this grant budget.

The Section 8 budget process involves estimating County revenues based on the historical number of Section 8 vouchers and budgeting appropriate expenditures to administer those vouchers. The supplemental appropriation should have no impact on the County's General Fund budget since it will recognize an equal amount of revenue and expenditures. Nassau OHHS is authorized to receive a statutory administrative fee⁵ to service each month's revolving Section 8 Housing Vouchers. These administrative fee revenues are claimed on a monthly basis from NYS HCR. Although the recipients of Section 8 Housing may change, the number of approved Section 8 Vouchers is relatively consistent with minimal year to year change, as this is the state authorized amount for Nassau County.

For over four years, OHHS's Former Director and Former Fiscal Manager submitted Supplemental Appropriations to Nassau County OMB based on an inflated number of monthly vouchers, enabling an increase in the corresponding Expenditure Authority. Table 1 below details these overstatements in numbers of vouchers and the amounts to be received:

Table 1

	(A)	(B)	(C)
	Inflated Monthly Appropriated Vouchers	Actual Average Monthly Vouchers	Administrative Fee⁷
<u>Grant Year⁶</u>			
4/1/07-3/31/08	4200	2609	\$66.72
4/1/08-3/31/09	4800	2741	\$66.72
4/1/09-3/31/10	4800	3020	\$73.79
4/1/10-3/31/11	4800	3009	\$73.79

The inflation of OHHS's number of vouchers and corresponding quantified amounts resulted in a consistent and significant over appropriation as detailed in Table 2 below:

⁵ Nassau County OHHS receives 90% of the Gross Fee after NYS HCR withholds 10%.

⁶ Audit scope fiscal years 2009 - 2011 covers grant years 2008-2009 through 2010-2011. Upon further review, significant increases appeared to begin in 2007-2008, 07-08 Supplemental Appropriations reported 4,200 vouchers when the actual was only 2,609. For that reason, this period is included in the table.

⁷ Although the gross fee including the NYS portion was used in projecting revenue, this 10% was also included in projected expenses, so the actual net supplemental appropriation was correct with regard to the per voucher amount to be received.

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Table 2

<u>Grant Year</u>	(A)x(C)x(12Months) Inflated Actual NET Appropriation	(B)x(C)x(12 Months) Should have Appropriated	Estimated Over Appropriation
4/1/07-3/31/08	\$3,026,420	\$1,879,983	\$1,146,437
4/1/08-3/31/09	\$3,458,765	\$1,975,099	\$1,483,666
4/1/09-3/31/10	\$3,825,274	\$2,406,735	\$1,418,539
4/1/10-3/31/11	\$3,825,274	\$2,397,968	\$1,427,305
			\$5,475,947

The \$5.5 million dollar excess appropriation has already resulted in a non-reimbursable loss to Nassau County. In addition to overestimating voucher revenue, the former Director included in the Supplemental Appropriation revenues from other funding sources, most of which never materialized.

Under the Former Director and Fiscal Manager, OHHS overspent on hiring new staff, consultants, and new furniture. This resulted in a substantial cost to the County (see Finding (2)) regarding a \$6.2 million charge to the County General Fund) and will continue to cost the County in the next two years for additional termination and pension payments (See Finding (12)).

We reviewed the actual revenues and expenditures for the Section 8 area and determined that from April 2007 through December 31, 2011 there was a net over-expenditure of \$4.7 million which, when combined with the accumulated deficit in the grant of \$1.3 million for the 31 prior years of the grant, resulted in a deficit of \$6.1 million as of December 31, 2011. This data is presented in Table 3 below.

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Table 3

Actual Section 8 (HI83) Revenues & Expenditures Since Inception

<u>Description</u>	<u>All Grant Years From Inception Until 04/1/2007</u>	<u>During Audit Period 4/1/2007-12/31/2011</u>	<u>All Grant Years From Inception Until 12/31/2011</u>
Revenue Total	\$ 27,158,318	\$ 11,782,842	\$ 38,941,160
Salaries & Fringe	\$ 21,085,534	\$ 14,556,018	\$ 35,641,552
Other Than Personal Services	\$ 7,385,388	\$ 1,942,218	\$ 9,327,606 *
Expenditure Total	\$ 28,470,922	\$ 16,498,236	\$ 44,969,158
Revenue Less Expenditures	\$ (1,312,604)	\$ (4,715,394)	\$ (6,027,998)
Encumbered at 12/31/2011			\$ (82,103)
Over Expenditures at 12/31/2011			\$ (6,110,101)

* Includes equipment, supplies, contractual services and inter-fund charges.

The problem with expenditures exceeding revenues has continued into fiscal year 2012, with the possibility that there may need to be an additional charge to the general fund for these overages. Table 4 below presents the data for the first quarter of 2012.

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Table 4

Actual Section 8 (HI83) Revenues & Expenditures from January 1, 2012 to March 31, 2012

<u>Description</u>	<u>During Audit Period</u> <u>1/1/2012 - 3/31/2012</u>
Revenue Total	\$ 621,570
Salaries & Fringe	\$ 899,943
Other Than Personal Services	\$ 30,565
Expenditure Total	\$ 930,508
Revenue Less Expenditures	\$ (308,938)
Encumbered at 3/31/2011	\$ (66,043)
Over Expenditures for first 3 months of 2012	\$ (374,981)

Review Recommendations:

OHCD should carefully and accurately develop future Housing budgets that are properly supported by documentation from the granting authority. Specifically, these budgets should accurately reflect the number of Section 8 vouchers in relation to the State program. Further, reconciliation of grants must take place in a timely manner and other internal controls put in place to avoid inflated budgets and expenses.

Review Finding (2):

Overstaffing Beginning in 2007 Contributed to a \$6.2 Million Charge against County Revenue in 2011

The inflated budgetary revenues described in Finding (1) allowed the Department an excessive spending authority. The resulting unnecessary build-up of excessive staff contributed substantially to a \$6.2 million write-off to the County's General Fund.

In January 2002, the Department had revenues of \$33,202,333 and 37 employees. In 2011, the reorganized Department had revenues of \$26,910,660 and 113 employees. (See Table 5)

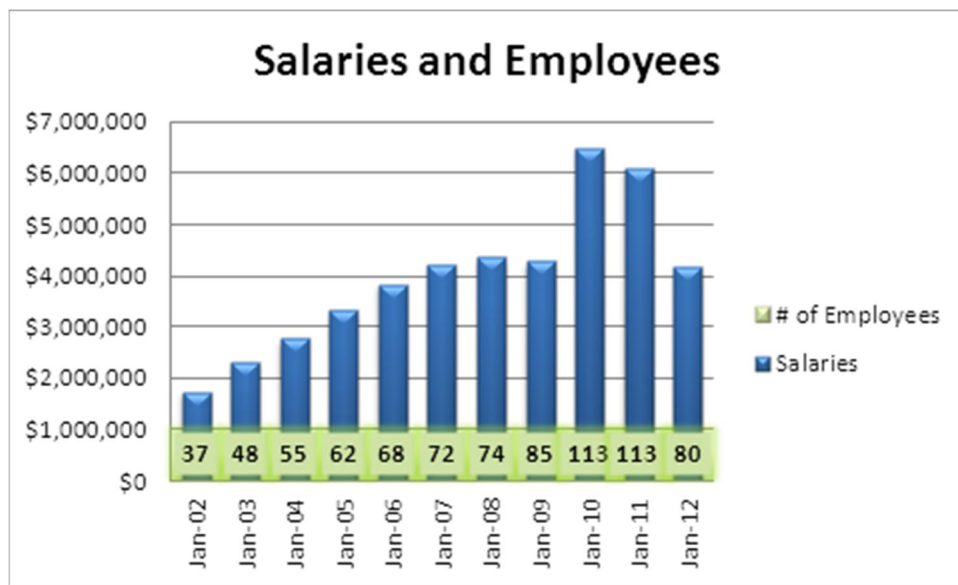
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Table 5

	<u>Revenues</u>	<u>Salaries</u>	<u>Headcount</u>
2002	\$33,202,333	\$1,739,401	37
2011	\$26,910,660	\$6,104,229	113

Table 6 documents staff headcounts and salaries over the eleven year period from 2002-2012.

Table 6



The current Director, upon determining there was an overstaffing issue, began eliminating positions in an effort to reach acceptable staffing levels. The Department has successfully reduced staff from 113 employees in January 2011, to 80 as of March 2012, and a further reduction to 70 as of June 2012.

This situation evidences serious control deficiencies, namely:

- Internally, the Department lacked sufficient controls to prevent over spending;
- Grants management did not detect this in its review of grant forms and supplemental appropriations; and
- The former Budget Analyst at the Nassau County Office of Management and Budget assigned to review the Department failed to detect and remedy overspending over a four year period.

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Review Recommendation:

OHCD should continue analyzing the workflow process to determine which positions are most critical and eliminate others. OHCD needs qualified accounting staff, appropriately trained in grants management, to properly monitor the grants.

Review Finding (3)

Prolonged Failure to Perform Grant Reconciliations Violates County and Federal Internal Control Guidelines

Grant reconciliations were not prepared by OHCD prior to the reorganization of the department in April, 2011. In reviewing the OHCD grant information in NIFS, we confirmed the \$6.1 million Section 8 shortfall (see Table 3), which would have been exposed in a more timely manner if annual reconciliations had been performed. New management includes financial professionals who are working to put controls in place and complete reconciliations of all grants.

Our review of the other grants indicated that they are all within budget, but there are outstanding projects and obligations that have not been completed, therefore the County cannot yet submit claims for reimbursement. In addition, journal entries allocating salaries between grants have not been completed. Due to the above, we are unable to fully assess the fiscal impact of unreconciled grants; however, we have identified an additional potential liability of \$664,000 (see Finding (15)). Also, if ongoing program reviews by HUD indicate deficiencies, anticipated revenues may be reduced.

OHCD does not have comprehensive policies and procedures regarding grant management and grant reconciliations in place. Management has the responsibility to establish and maintain proper internal controls, and to ensure that all employees are following prescribed policy, procedures and legal requirements. The Federal Government defines Internal Control as a "process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations".⁸

Grant reconciliations are required by:

- The Comptroller's Office: Annually, as part of the Single Audit's Schedule of Federal Expenditures ("SEFA"), County departments are required to submit a federal award questionnaire that details the reconciliations that they have performed between grant revenues and expenditures. For each fiscal year, grant revenues must match grant expenditures in order to ensure that eligible expenditures have been reimbursed in the

⁸ Audits of States, Local Governments & Non-Profit Organizations, A.133, Section 105, Definitions.

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proper grant code and fiscal year. Grants must be properly accounted for in NIFS, the County's financial system, as the official financial records of the County.

- The County's Office of Management and Budget: The Grants Management Policies and Procedures Manual states "it is the responsibility of the department to manage grant funded programs; and report and comply with all County and funder requirements.⁹" Therefore, it is the responsibility of the OHCD to ensure that a process is in place to ensure that periodic reconciliations are performed so that revenues and expenditures are properly matched.
- Federal Office of Management and Budget's Circular A-133: The provisions of Circular A-133 are designed to promote sound financial management by the recipients of federal funds, particularly in the area of internal control in accordance with generally accepted accounting principles ("GAAP"). Included in auditee responsibilities is the provision that the auditee, such as Nassau County, shall among other responsibilities, maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- Over 98% of OHCD departmental salaries are paid for by grants. It is essential that a continual monitoring of expenses occurs (as salaries fluctuate) in order to ensure payroll will not exceed the approved budget.

The main grant awards, in addition to the Section 8 administrative fee revenue previously discussed at OHCD, are listed in Table 7 below:

⁹ Nassau County Grants Policies and Procedures Manual; April 2007, Page 2.

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Table 7

Budgeted Grant Awards 2009-2011

Grant	Grant Code	2009	2010	2011
Community Development Block Grant (CDBG) ⁽¹⁾	HIGRT8500FED	\$ 15,418,751	\$ 16,915,853	\$ 14,136,314
Home Investment Partnership Program (HOME)	HIGRT9292FED	\$ 3,910,908	\$ 3,907,638	\$ 3,455,746
Emergency Shelter Grant (ESG)	HIGRT9593FED	\$ 692,360	\$ 701,374	\$ 952,247
Neighborhood Stabilization Program (NSG) Y8 ⁽¹⁾	HIGRTNSNSFED	\$ 7,767,916		\$ (762,000)
NSG 8Y (NSP Foreclosure Counseling)				\$ 762,000
Homelessness Prevention and Rapid Re-housing (HPRP - Stimulus) ⁽²⁾	HIGRTFSHPFED	\$ 6,458,352		

⁽¹⁾ Grant runs from 10/1/2008 to 9/30/2013. The \$762,000 represents part of the Neighborhood Stabilization (NSP) Grant that was segregated for Housing Counseling.

⁽²⁾ Lump sum ARRA Stimulus.

Grant reconciliations are needed both for Single Audit reporting and to ensure that costs being expensed are reimbursable under the grant. Regardless of funding source (federal, state, etc.), all grants should be reconciled. Proper reconciliations could have revealed the over expenditure under Section 8 at an earlier point before the \$6.2 million charge to the County General Fund.

OHCD officials were unable to provide grant reconciliations to the audit team as of the commencement of the audit, noting instead that reconciliation work was underway. In June 2012, OHCD began furnishing reconciliations to the Comptroller's Accounting Section. However, it was noted that the reconciliations were not always complete and required adjustments. As noted in Finding (10), OHCD's staffing may require additional grant accountants or grant reconciliation training for optimal grant management.

Problems with the Single Audit Questionnaires were noted:

- Single Audit questionnaires, which were due in the Comptroller's Office by February 2012, were not received until June 2012. It was noted that there were un-reconciled items in four of the nine questionnaires filed by OCHD for 2009;

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- Due to the late submission, adjusting entries were not made for fiscal year 2009, but had to be made in the 2010 fiscal year. This problem was repeated for both fiscal years 2010 and 2011; and
- In 2010, there were four grants for which questionnaires were not submitted. These included the CDBG, the Department's largest grant, as well as Homestart, HOME and the CDBG Recovery Federal Stimulus.

Although Section 8 revenues and expenditures are not reportable for Single Audit purposes, since the County functions as an administrator for New York State on Section 8 (we do not determine eligibility), an annual reconciliation of the actual revenue received compared with the actual expenditures would have disclosed the over-expenditures discussed in Finding (1). Due to the OHCD grant reconciliations not having been performed for 2011, we cannot determine if there is additional exposure to the County for 2012. If there is an over-expenditure of funds in other grant areas, an additional write-off and charge to the general fund will be necessary in 2012. We note that there may be additional exposure in Section 8 due to the previously non-disclosed bank accounts, reportedly financed by HUD, for two village Housing Authorities (See Findings (4) and (5)).

Federal stimulus funds to Nassau County will expire in 2012. In addition, the 2012¹⁰ award for CDBG is approximately 12% less than in prior years and nearly 42% less than at the grant's funding peak in 2003. Therefore, OHCD needs to ensure that it closely monitors expenditures in recognition of this reduced revenue.

Review Recommendations:

OHCD should:

- a) Establish policies for the administration of grants that include periodic reconciliations, at least on a quarterly basis, of all grants to NIFS that match revenues with the corresponding expenses;
- b) Have an experienced grant accountant perform OHCD's grant reconciliations. Until that is accomplished, OHCD should hire an independent auditing firm to set up the reconciliation process;
- c) Obtain grant training wherever possible to enhance county grant expertise. Ensure that the questionnaires required at the end of the fiscal year are submitted in accordance with the schedule requested by the Comptroller's Office, and include any reconciling items; and
- d) Reduce staffing to reflect the reduction in federal grant revenue.

¹⁰ The 2012 grant year begins on 9/1/12.

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Review Finding (4):

The Former Director and Former Fiscal Manager Misused Two Different Village Housing Authority Bank Accounts

OHHS, and now the reorganized OHCD, administers two Village Housing Authorities, issuing checks for Section 8 voucher payments through two bank accounts with JP Morgan/Chase that do not belong to the County. It appears OHHS misused these bank accounts not only for Section 8 voucher payments, but for OHHS employee reimbursements and other irregular payments (See Finding (5)). The auditors were able to ascertain that the check signature stamp used on one of these accounts was a former village clerk who had not been employed by that village in at least six years, although she had been an employee and a signatory prior to that. The other village bank account had primarily electronic fund transfers but at least one check contained a facsimile signature of a village clerk who retired in the Spring of 2011 and was no longer employed at that village at the time that check was issued. Therefore, the signatories on these checks were invalid.

The current OHCD Administration has continued to make Section 8 Housing voucher payments for these two villages from these accounts under the instructions and guidance of HUD to ensure legitimate landlords would continue to be paid until the conclusion of the HUD investigation.

Currently, OHCD employees are bank signatories on these non-County bank accounts. There is no evidence that these current employees consulted with the County Attorney to determine if there are current inter-municipal agreement with these villages. They also have not consulted with the County Treasurer regarding the appropriateness of these accounts, and the appropriateness of OHCD employees acting as signatories on accounts that do not belong to the County. OHCD's current Director stated he was instructed to continue making these payments until HUD advised him otherwise.

Review Recommendation:

OHCD should consult with Federal/State Housing officials, the County Attorney, and the County Treasurer on how to properly proceed with these accounts.

Review Finding (5):

Irregular Payments Issued from Non-County Housing Bank Accounts are Under Investigation by the HUD Inspector General for Improprieties

As discussed in Finding (4) above, two bank accounts were utilized by the Former Director and Former Fiscal Manager to administer Housing Assistance to two communities in Nassau County. Housing grant money was wired to these accounts and OHHS hired ADP to prepare Section 8 voucher payment checks. However, employee reimbursement and other irregular payments were

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also made which did not pass thorough the Comptroller's Office Claims process. (See discussion below.)

Disbursements totaling \$1.3 million for both Housing Authorities were made through the two bank accounts established with Chase for the period 2009-2011. OHHS utilized two separate ADP accounts for check processing. Due to the ongoing HUD investigation, the Department has been unable to provide any documentation to support disbursements from the Chase Bank accounts.

For both Village Housing Authorities, certain transactions in the Chase checking and the ADP disbursements indicate that payments may have been made to ineligible individuals. Also, payments were made from these accounts, circumventing the County's normal purchasing, claims approval, contract, and hiring process. Since the documentation is with the HUD Inspector General's Office, the current OHCD personnel were not able to provide the documentation to support these payments. We have examined these ADP runs and determined that some payments appear to be irregular, needing further investigation of the supporting documents once released by HUD. The payments were as follows:

- Payments of \$29,246 for professional services, including accounting, legal and information technology services, which should have followed the County's procurement and contract approval process;
- Payments of \$55,457 for employees' expense reimbursements, which should have been disbursed through the Comptroller's Office's Claims review process. IRS Form 1099's were generated for employees' expense reimbursement;
- Payments of \$8,909 for food and entertainment for which the business purposes are not known, but included a party tent rental company;
- Payments of \$7,466 to a relative of an OHHS employee for a summer internship, which should have been processed by the Nassau County Human Resources and paid through the County payroll system;
- Payments of \$3,780 to a relative of a consultant to OHHS for which the business purpose is not known;
- Payments of \$28,370 for donations which may have been prohibited by Federal Circular. Of these donations, \$16,375 were to non-profit organizations which had ties to the former Director;
- Payments of \$920,033 for Village Section 8 vouchers.
- Payments of \$22,070 for subscriptions and training;
- Payments of \$12,675 for office supplies and shredding; and

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- Payments of \$98,656 for other expenses for which the business purposes are not known.

We also scanned records from 2006 to 2008 to determine if there were additional irregular payments and found:

- The former Director was paid a total of \$24,530.58 from these two accounts for which there is no support;
- Payments of \$16,148 to a Caterer, for which a business purpose is not known;
- Payments of \$2,440 to a party transportation company located on the North Fork of Long Island, for which a business purpose is not known;
- Payments of \$1,541 to a limousine company, for which a business purpose is not known; and
- Payments of \$10,000 to a housing organization that the auditors were unable to locate and verify, the website domain is no longer assigned to the organization and the phone number has been disconnected. Further investigation revealed that this organization's exempt status was automatically revoked by the IRS for failure to file a Form 990 Information return for three consecutive years.

Review Recommendations:

OHCD should:

- a) Ensure that all professional services contracts are obtained using the County's procurement and contract approval processes;
- b) Work with HUD to determine the propriety of all payments made through these accounts due to possible criminal activity;
- c) Pay employee reimbursements through the Comptrollers Office's claims process; and
- d) Ensure that payments for authorized business expenses should also be routed through the Comptrollers Office's claims process.

Review Finding (6):

Possible Theft of Section 8 Funds by Former Fiscal Manager in the Amount of \$125,700 was Uncovered

During the examination of ADP disbursements from these Village Housing Authority bank accounts, we were informed by OHCD officials that one payee could not be traced to a Section 8

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voucher, and was unknown. Payments were made out to an individual with the same maiden name as the spouse of the former Fiscal Manager. These monthly payments of \$4,900 stopped when the former Fiscal Manager went on leave in September 2011. The auditors determined that the address listed was a fictitious address. This individual received a total of \$125,700 from 2009 through August 2011. No payments were made prior to 2009.

On July 27, 2012, the Former Fiscal Manager was charged with theft of public money in US District Court. He pleaded not guilty and awaits trial.

Review Recommendation:

OHCD should work with investigators to determine the appropriate course of action to recoup these funds.

Review Finding (7):

Services Claimed Pursuant to an Unexecuted Contract Exposes the County to a Potential Liability in Excess of \$200,000

During field work on this review, a potential liability was brought to our attention. A vendor without a contract presented itself to OHCD requesting payment of \$208,550. The vendor claims it provided homeless shelter services. OHCD investigated and found there was no executed contract. In December, 2010, an e-mail from an OHCD counsel to the vendor indicated that the contract was not to exceed \$24,000 and needed to be routed through multiple County departments and properly executed.

The vendor sent several e-mails stating their willingness to provide shelter. In response, the counsel replied “that at the point the contract reached its threshold (\$24,000) there would be an assessment by the Director of Housing whether to amend the contract and add additional funds. This would require approval by the Nassau County Legislature. Initial payment will be made once that is complete”. The Fiscal Manager sent the vendor a contract to be signed on January 13, 2011.

In April of 2011, the vendor initialed page 1 of a revised contract, which listed a payment amount not to exceed \$208,550. The counsel again advised the vendor that the contract “will need to be approved by several departments including the Legislature”. The vendor signed the contract but, as of June 2012, the contract was never executed by the County, and no payments to the vendor were made.

In addition to the contract issue, the auditor reviewed the invoices for this vendor’s three locations claimed and found the following irregularities:

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- For one of the properties, the facility is a single family home. The invoice from the vendor shows that there are 31 to 32 inhabitants on some nights. There is at least one infant (and sometimes two) listed on the invoices for many nights;
- There were no Housing inspection records in the files for these properties to evidence that these properties have ever been inspected;
- We were not provided with any sign-in sheets or original invoices from the shelters. Since 2009, DSS and OHHS had been running an emergency shelter program jointly. This program requires each shelter resident to sign a certification that they had stayed there each night. The shelter must submit these certifications to get paid; and
- Our auditor found that the invoices do not agree to the backup provided. Invoices do not agree on three of the thirty one dates that were tested for the month of January of 2011:
 - January 23, 2011 billed \$1,900, backup added to \$1,750
 - January 24, 2011 billed \$1,950, backup added to \$1,750
 - January 26, 2011 billed \$2,200, backup added to \$2,150

It is unclear why the former Director and former Fiscal Manager authorized this shelter program separate from the OHHS and DSS joint program and provided to them a non-shelter specific County contract. A senior supervisor at DSS informed us that emergency shelter at DSS has been in existence for over 25 years. The DSS and OHCD joint shelter program were combined in 2009 and payments are made from DSS. Shelter placements include case management. Their goal is to then move persons as quickly as possible from temporary shelter to stable, self-sufficient housing in the community. Auditors could not determine why this shelter was not under the auspices of the DSS/OHCD joint shelter program.

An e-mail from the vendor regarding the need for Worker's Compensation Insurance indicates that they did not have paid staff. Therefore, it is unclear who was providing the support services in these shelters.

The vendor's proposed contract clearly states that "The County shall have no liability under this Agreement (including any extension or other modification of the Agreement) to any Person unless (i) all County approvals have been obtained, including, if required, approval by the County Legislature, and (ii) this Agreement has been executed by the County Executive (as defined in this Agreement)."¹¹

Review Recommendations:

OHCD should consult with the Office of the County Attorney to resolve the potential liability from this unexecuted contract. All other irregularities must be investigated with the appropriate

¹¹ Section 19 Executory Clause (a) Approval and Execution.

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follow-up by law enforcement agencies. In the future, no vendor should be permitted to provide grant funded services without a completely executed and approved contract.

Review Finding (8):

Former Director Purchased Over \$120,000 of Installed Modular Furniture which Currently Sits Unused in Basement

During the course of the audit we observed a large newly furnished office in a remote area near the Housing Offices. The furniture consisted of three installed private offices and approximately 25-30 installed work stations, chairs, file cabinets and credenzas. This furniture was ordered by the former Director of Housing who stated in her requisitions (approval requests) that this would be 100% federally funded. The auditors examined the invoice paid in February 2011, which totaled \$121,389.

We asked representatives of the Department of Real Estate if the former Director had contacted them regarding the intended use of this space. At some point the former Director informed Real Estate that additional staff was approved (20 employees) and that this space was set aside for that purpose. As previously mentioned, the overstatement of revenues allowed a larger spending authority for salaries, furniture and consultants, causing the County a loss of \$6.2 million (See Finding (2)).

Despite the above explanation, the new furniture, installed in March, 2011, remains unused to date.

Review Recommendations:

The Department of Housing needs to contact County Facilities to determine if there is a need in the County for an agency to relocate to this office. Alternatively, Facilities Management could have their staff disassemble and reassemble this office in another area of the County, or, this furniture should be listed for bids and sold to the highest bidder to recoup some of the funds.

Review Finding (9):

The Contract for Foreclosure Counseling Awarded by Former Director did not follow the County's Established Procurement Process and the Associated Billing Contained Irregularities

OHHS entered into a contract with a consultant for \$100,000 to provide Foreclosure Counseling Services.

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Although work on this contract was to have been performed throughout 2009, the former Director did not begin the contract routing process until early November 2009. Several irregularities were noted in reviewing this contract, including:

- **Nassau County procurement procedures were not followed.** There was no request for proposal process performed by the OHHS, which is a governmental best practice. The Former Director declared this consulting firm as the sole source of this type of service, foreclosure counseling and neighborhood stabilization which, according to County policy, should have been declared by the Director of Purchasing;
- The **Proof of Insurance** required of County contracts did not cover the period of the contract. The contract ran from January 1, 2009 to December 31, 2009. The insurance certificate attached began November 24, 2009 and ran to November 24, 2010;
- There are **no daily or hourly rates in place on the contract.** The contract only stated the amount to be paid to the Contractor shall not exceed \$100,000;
- **Work product** – In order for the bill to be paid, OHCD had asked for the consultant to provide information on what services had been performed on this contract. Among the home ownership counseling and outreach mentioned in response, the consultant stated a daylong event had been held April 3, 2009 for 10 servicers and their delinquent borrowers. However, on invoices to the County, the consultant did not bill for any services for April 3. In the correspondence with OHCD, the consultant mentioned “personally working with the counselors and closely with” the former County Executive. When the auditors questioned the OHHS foreclosure counselors to see if they had worked with this consultant, they said they had not;
- **Performance assessment** – The contract does not provide for any oversight of the program’s performance or the work provided by this vendor; and
- **Funding** – Although this contract was routed through the approval process as 100% federal funding, it was not reimbursed by the Neighborhood Stabilization Grant, but rather through the Section 8 program. As noted in Finding (1), the Section 8 Housing program had already been overspent, so no additional funding was received. Therefore, this was part of the \$6.2 million dollar charge to the County’s General Fund.

We also noted several irregularities with regard to the consultant’s billings on this contract, as follows:

- Claims for payment were originally submitted on one voucher with \$100,000 listed as Neighborhood Stabilization Grant with no supporting documentation;
- When Comptroller’s Vendor Claims denied payment of the above voucher due to the lack of supporting documentation, a series of twelve monthly consultant invoices were submitted that totaled \$96,871.13. A second December invoice was submitted for the additional funds to bring the total to the \$100,000 amount of the contract. However,

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Vendor Claims denied the claim as it contained duplicate billings for December 21 and December 28, 2009. When the consultant was questioned about this, the consultant submitted a revised invoice for December 16 and December 17, 2009. The consultant used the exact description used on the prior invoice. They were now billing for full days rather than half days, although the description for services was exactly the same; and

- This consultant submitted invoices to OHHS and was subsequently paid for two days in the amount of \$4,166.50 (February 3, 2009 and February 4, 2009). OHCD later determined that the consultant was a guest speaker at a conference sponsored by the Federal Reserve Bank of San Francisco on those dates, representing her own company, as listed on the conference website.

Review Recommendations:

Going forward, the Office of Housing and Community Development should:

- a) Obtain Requests for Proposals (“RFP”) for professional services to ensure the best possible service is obtained at a competitive rate;
- b) Avoid contracting for professional services whenever possible, through the utilization of Nassau County's own employees. The expertise and professional qualifications of County employees should be enhanced through training;
- c) Ensure that the terms of insurance policies cover the full term of the contractual agreement (including any pro bono services);
- d) Attempt to recover \$4,166.50 from the contractor for the two days (February 3-4, 2009) where evidence from the conference website indicates she was in San Francisco, California on behalf of her own company;
- e) Develop departmental claim voucher review procedures to ensure that vouchers are reviewed for adequate supporting documentation and duplicate or overlapping dates of service before the claim vouchers are forwarded to the Comptroller’s Vendor Claims Section for approval; and
- f) Ensure hourly and daily payment rates are detailed in any contractual agreement.

Review Finding (10):

OHCD is not Organized for Optimal Grant Management due to the Lack of Continuity of Staff

There has been a lack of continuity in the administration of grants, record keeping, and program management. There is no process to ensure that when county Administrations change, there will be consistent policies and procedures in place to assist new department managers, supervisors and employees in learning their responsibilities. During the course of this audit, field work was hampered due to a lack of consistent policies and procedures regarding the status of grants, the

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location of records, and the grant reconciliation and close-out process. Time-consuming searches had to be made for records and information.

OHCD administers Federal grants totaling more than \$24 million.¹² Technical and historic grant knowledge is essential for grant compliance. Only one of the six most senior employees at OHCD has served more than two years at the department.

The following Table illustrates the breakout of all employees by functional areas:

Table 8

MANAGEMENT		TECHNICAL		PROGRAM			
		FINANCE	LEGAL				
1	Executive Director	1	Asst. to Urban Accountant	1	Chief Counsel	9	Housing Insp./Inspectors
4	Deputy Directors	2	Special Assistants	1	Counsel	6	Senior/Housing Specialists
1	Deputy Director - Finance & HR	1	Fiscal Analyst	1	Special Assistant	9	Case Managers
1	Deputy Director - Technical	1	Assistant Director	1	Housing Representative	29	Other Titles
1	Director						
8		5		4		53	

There have been material changes in year-end staffing at OHCD, as noted in the following table:

Table 9

Office of Housing and Community Development Staffing

Time Period	Number of Employees
January 2009	85
January 2010	113
January 2011	113
January 2012	80
June 2012	70

Most job positions at OHCD are funded through the County's Grant Fund and are dependent on grant funding. The lack of continuity regarding grant administration at OHCD is of special concern for the following areas and functions:

- **Accounting and Grant Reconciliation:** Grants should be reconciled on an annual basis, and grant close-outs should be performed in a timely manner by experienced and knowledgeable staff. This is essential to ensure that grant revenues are maximized and

¹² Nassau County Office of Management and Budget, 2012 Grants Plan, page 13.

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that the annual County Single Audit requirements are met. It is also essential that key managers have adequate knowledge and experience to discharge their responsibilities.¹³

- Grant Writing and Grant Administration: These are specialized functions requiring staff members who understand complex Federal and State laws, regulations, and grant program requirements.
- Fraud Prevention: Numerous HUD reviews and audits of local governments have noted instances of fraud in housing programs, particularly in the Section 8 Program. Clients, landlords, and government employees have been found to have defrauded local governments, including Nassau County. Employees with specialized training in fraud prevention are an invaluable resource in developing policies and procedures to minimize the risk of fraud.

Review Recommendations:

The County's Administration should consider the need for continuity in the administration of OHCD and its various grant programs. Consideration should be given to ensuring that some experienced Accountants, Grant Managers, and employees trained in fraud prevention techniques are hired. Classifying a few key financial managers under the County's General Fund, rather than the Grant Fund, should also be considered, to ensure that continuity of staffing is maintained during periods when grant funding may be curtailed or cut.

Review Finding (11):

OHCD Failed to Reconcile a Bank Account as Required by the County Executive's Directive¹⁴

Pursuant to Local Law 19-2009¹⁵, OHHS opened a bank account¹⁶ authorizing the placement of \$250,000 in a revolving fund for disbursement of funds to eligible individuals under the Homelessness Prevention and Rapid Re-Housing Program ("HPRP"). HPRP is funded through Federal Stimulus Funds from the American Recovery and Reinvestment Act¹⁷ of 2009. Disbursements were made from this account and replenished by submitting vouchers to HUD for reimbursement.

On April 21, 2011, following the termination of the former Director of Homeless Services, the County Executive issued a directive setting forth procedures for the management of this bank

¹³ A-133 Compliance Supplement, page 6-2 (March 2011).

¹⁴ Directive No. 9 dated April 21, 2011.

¹⁵ Nassau County Local Law 19- 2009, amended by Local Law 16-2010.

¹⁶ The account was at Wachovia Bank.

¹⁷ American Recovery and Reinvestment Act ("ARRA") commonly referred to as **the Stimulus** or **The Recovery Act** is an economic stimulus package enacted by the 111th United States Congress in February 2009 and signed into law on February 17, 2009.

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account to ensure that adequate controls were in place over disbursements. Among the provisions of the directive was a requirement that “A member of the OHCD fiscal staff shall perform a monthly reconciliation of bank statements to be reviewed by the Nassau County Comptroller and submitted to the Nassau County Treasurer.”¹⁸

As of July 2012, fourteen months since the directive was issued, reconciliations have not been performed nor sent to either the Treasurer or the Comptroller. Over \$3,284,537¹⁹ has been disbursed from this account. We did not perform a review of expenditures to confirm that payments had been made only to individuals meeting the grant criteria as HUD was performing program reviews at the time of our field work.

OHCD did not report that it had this bank account when our Office did its annual survey of County bank accounts that are not reported through NIFS.

Review Recommendations:

OHCD should rectify this situation immediately by performing bank reconciliations on this account. Reconciliations should begin with the inception of the grant. These should be submitted to both the Offices of the Comptroller and the Treasurer.

Review Finding (12):

OHCD’s Late Benefits Reconciliation Caused an Overpayment to a Former County Employee in the Amount of \$3,913

OHCD allowed a terminated fiscal analyst to be paid for 17 days in December 2011 that the employee was apparently not entitled to, resulting in a total overpayment of \$3,913. This appears to have been caused by OHCD’s late reconciliation of the employee’s leave balances. OHCD has tried to recoup these funds, which is evidenced by a letter from the Director to the employee dated April 13, 2012. It is unclear why Housing waited over three months after the employee left before making this request for repayment. However, we were advised by the Comptroller’s payroll department that a personnel action was pending to return this employee to active status dated April 14, 2012, one day after the date on the letter.

Again, as this Department’s payroll has been primarily paid through grants, this is another example of an unbudgeted general fund cost.

Review Recommendations:

- a) OHCD should pursue, through the County Attorney, options for the County to recover this overpayment; and
- b) OHCD should review its payroll policies to ensure that a process is in place to stop paychecks for terminated employees.

¹⁸ County Executive Directive #9 dated April 21, 2011.

¹⁹ As of May 2012.

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Review Finding (13):

Auditors Confirm the Existence of Additional Potential Liability of \$664,000

Summarizing potential liability, the auditors note the following:

- | | |
|---|-------------------------------|
| • Section 8 Over expenditure (Finding (1)) | \$375,000 |
| • Vendor for homeless shelter (Finding (7)) | \$0 – approximately \$200,000 |
| • Additional 2012-2015 Termination Costs (Finding (14)) | \$292,000 |

The auditors cannot determine the cost of the 2012 pension contribution on terminated employees as the NYS Office of the State Comptroller will provide these numbers in 2013.

Several grants, including two federal stimulus programs are ending in 2012 and the CDBG grant has been cut. Staffing still needs to be reduced to account for the grant revenue losses and reductions.

Review Recommendations:

OHCD should:

- a) Ensure that sufficient funding is in place to cover the expenses related to terminated employees; and
- b) Review current staffing levels to reflect reduced grant revenue.

Review Finding (14):

Excessive Hiring at OHCD Has Led to a Termination Pay Liability Extending Through the Year 2015

When the current Director learned of the lack of funding for many staff positions, OHCD took corrective action. Fifty-two OHCD Grant Fund employees and two General Fund employees have been let go since January 2011, for a total termination pay liability of \$452,296.

The termination payouts for 2012 of \$218,205 already significantly exceed the 2012 budgeted amount of \$160,000 and thus, surpass the budgeted amount for the year by \$58,205.

Actual termination pay for 2012 and estimated additional termination pay for the years 2013, 2014 and 2015 are as follows:

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Table 10

Termination Pay	Amount Payable as of 5/12	Amount Paid in 1/12 or 2/12	Total Termination Pay
Termination Pay: Grant Fund	220,638.41	213,180.46	433,818.87
Termination Pay: General Fund	13,452.90	5,024.04	18,476.94
Total Payable	\$234,091.31	\$218,204.50	\$452,295.81
Liability by Year:			
Actual: January - February 2012			218,204.50
Estimated: January 2013			110,319.21
Estimated: January 2014			105,090.96
Estimated: January 2015			18,681.14
Total:			\$452,295.81
Amount Budgeted for 2012			160,000.00
Actual Amount Paid 2012			218,204.50
Amount Over Budget			\$58,204.50
2012 Over Budget			58,204.50
2013 Estimate			110,319.21
2014 Estimate			105,090.97
2015 Estimate			18,681.14
Possible Termination Exposure			\$292,295.82

We were advised by OHCD officials that additional employee terminations may take place before the end of 2012. This would result in additional liability for termination pay.

Review Recommendations:

OHCD must ensure that the Administration and OMB are advised of the \$292,296 of estimated termination pay liability exposure for the period 2012 through 2015. If additional OHCD staff terminations take place before year end, the termination pay impact should be dollarized in a timely manner to ensure that funding will be available.

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Review Finding (15):

The Method for Paying Employees from the Grant Fund has caused OHCD Recurring Payroll Complications and needs to be Modified

Historically, this Department's payroll has been funded primarily through grants. There are many factors that critically affect grant accounts more so than general fund departments and this continuously creates payroll problems for OHCD.

Specifically, grant revenues do not flow into the County on a regular basis from all the various Housing grants, grant details may change from the original budget to the current grant regulations, various grants have different grant years, and staff composition and costs may change from the time the supplemental grant budget was prepared until actual charges hit the accounts. Also, the current payroll system, Nassau Unified Human Resource Systems ("NUHRS"), does not allow for an allocation between multiple grants for employees' payroll costs.

Additionally, at least on seven occasions in 2012, OHCD's payroll was temporarily held. This is primarily because before each payroll is processed there is a system generated report produced for the Comptroller's Office to verify that there are sufficient appropriations at various account levels for payroll and fringe benefits. This report details the departments that are in a negative position. Departments are then sent an e-mail warning that the appropriation must be covered prior to the release of the payroll or it will be held.

Coverage can include a board transfer (after the Legislature is polled) allowing the Comptroller's Office to release that payroll. Alternatively, journal entries are written to reallocate payroll to grants codes that have an allocation balance just to "make payroll". Some of these entries need to be reversed at a later time because that entry differed from what grant the employees worked. The incorrect accounting entries just to "make payroll" are not proper grant accounting but made because of the NUHRS system limitations mentioned above.

Review Recommendations:

OHCD, through the OMB, should set up a general fund account to cover one quarter's salary allocation. This would allow OHCD assurance that employees would be paid without this bi-weekly interruption. Because this account would only have a quarterly allocation amount, it would require journal entries to be prepared moving salaries from the general fund to the correct grant fund account each quarter. OMB would monitor this on a quarterly basis as well, so that overspending due to overstaffing can immediately be addressed by the County Administration.

Appendix A

Summary of Grant Programs Included in Limited Review of Grant Administration

The Office of Housing and Community Development (“OHCD”) acts as Nassau County’s agent in securing grants from the United States Department of Housing and Urban Development (“HUD”) as well as from New York State.

The chart below reflects significant grants administered by OHCD and their related revenues for 2011. The schedule also identifies revenues from the American Recovery and Reinvestment Act of 2009 (“ARRA”).

Summary of Housing & Community Development Grant Revenues: 2011		
Grant	Grant Code	Revenues ⁽¹⁾
Community Development Program (CDBG)	HI85	\$13,705,787
HOME Investment Partnership Program	HI92	3,770,314
Housing Choice Voucher Program	HI83	2,668,146
Neighborhood Stabilization Program	HINS	546,541
Emergency Services Grant	HI61	460,728
Lead Hazard Reduction Demonstration Grant	HILH	396,925
Subtotal		\$21,548,441
Homelessness Prevention Rapid Re-Housing Program: Federal Stimulus Funds ⁽²⁾	HIFS:HP	5,289,068
Community Development Block Grant Recovery Program: Federal Stimulus Funds ⁽²⁾	HIFS:CD	3,292,721
Total		\$30,130,230

⁽¹⁾ Revenues are per NIFS FAML6220 Inquiries as of Month 13 of 2011.

⁽²⁾ Federal Stimulus Funds are "one-shot" revenues received under ARRA, as of 6/7/12.

For 2012, these grants are estimated to exceed \$24.6 million. OHCD administers the following grants and programs:

Community Development Block Grant Program-HUD

The Community Development Block Grant Program (“CDGB”) is a Federal entitlement program. Their goal is to assist low and moderate income persons in their home communities by lessening slums and blight and addressing urgent community development needs. Approximately 90% of CDBG funds are used to benefit extremely low income, and moderately low income individuals. The funds can be used for a wide array of activities and projects relating to housing, economic development, commercial revitalization, public services, infrastructure and public facilities. Ongoing CDBG programs include:

- Municipality Infrastructure which provides repairs or replaces roads, parks and other economic development projects as necessary.

Appendix A

- Residential Rehabilitation Programs providing consortium member municipalities with funds for weatherizing one and two family privately owned homes.
- Handicapped accessibility under the Americans with Disabilities Act is also a function of this program. The County oversees the bidding process and the construction performed by approved contractors.

Homelessness Prevention and Rapid Re-Housing Program (“HPRP”)

This program emphasizes the rapid re-housing of the homeless. The goal of the program is to prevent homelessness by aiding in the procurement of long term sustainable housing. HPRP provides temporary, short term financial assistance to eligible residents of Nassau County. This encompasses rental assistance, rental arrears, security/utility deposits and arrears. It provides for legal services related to landlord-tenant and/or housing issues, housing search and placement, household budgeting and case management. This is done in order to bring these residents to economic self-sufficiency.

HOME Investment Partnerships Program (“HOME”)

The HOME Program is a Federal housing initiative whose primary objective is the expansion of the supply of owner and rental housing for low income households. Funding is targeted to projects which will provide rental, homeownership and transitional housing for extremely low, low and moderate income households through new construction, acquisition, and substantial rehabilitation activities. Funds can be used for housing related activities including real property acquisition, rehabilitation, new construction, tenant based assistance, homebuyer assistance, and support services. The HOME Program requires a 25% match of funds from non-Federal sources. Matching funds can be derived from private funding or from New York State housing programs such as the Housing Trust Fund, Low Income Tax Credit equity, or other public or private sources.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (“ARRA”) was signed into law on February 17, 2009. ARRA includes \$13.61 billion for projects and programs administered by the Department of Housing and Urban Development (HUD). Nearly 75% of the funding was allocated to state and local recipients on February 25, 2009. These funds were intended for various purposes including repairing and modernizing public housing, Section 8 rental assistance and emergency housing resources. OHCD received ARRA funding for Community Development Block Grant Recovery Program and Homelessness Prevention Rapid Re-Housing Programs.

Housing Choice Voucher Program: Section 8

The Housing Choice Voucher Program strives to increase the availability of affordable rental housing. The program assists eligible families in their quest to rent decent, safe, and sanitary housing in the private rental market. Housing choice vouchers give families the opportunity to rent affordable housing of their own choosing anywhere in the County. Generally, families holding vouchers pay approximately 30% of their income toward housing. There are two primary categories within the program: Tenant-Based and Project Based.

- Tenant-Based vouchers increase affordable housing choices for low-income families. Families receive a voucher assisting them in leasing spaces which meet HUD's Housing Quality Standards at a reasonable rate. This is in comparison to other housing units in the area. Families are provided with services including resource development, landlord mediation and referrals for human services.
- Project-Based vouchers promote new construction or rehabilitation of existing units for families, senior citizens, and the physically challenged. Landlords participate by committing a set number of voucher units to an existing property. The redevelopment may utilize additional sources of financing including tax exempt bonds as well as Federal and State low income housing tax credits. A number of housing developments have a housing assistance program contract with HUD. OHCD reaches out to project property owners when their contracts are near expiration to assist in protecting tenants with an extension of the contract. This may be coupled with assistance in making renovations or improvements to the properties.

OHCD, as the Nassau County Local Administrator, receives awards from HUD through the New York State Division of Housing and Community Renewal ("DHCR") for the Housing Choice Voucher Program. Expenditures consist of 100% reimbursable administrative fees. Revenues are received on a monthly basis from DHCR.

Emergency Housing Warm Beds Program

OHCD, in conjunction with DSS, administers the County's Warm Beds Program. The mission is to assist the homeless by providing shelter relief to families and individuals during cold winter months. The program commences on or about December 1 and runs through March 31 of each year. A one-stop Nassau County Winter Homeless Hotline, 1-866-WARM-BED, operates seven days a week. The intent is for OHCD and DSS employees to make referrals and provide emergency shelter placement, and then ultimately assist clients with resources for permanent housing.

Clients are assisted by DSS employees during normal business hours. Between the hours of 5:00 p.m. and 9:00 a.m., employees from OHCD's Office of Housing and Homeless Services make

referrals and provide shelter placement. Housing and transportation aid are provided by a variety of non-profit agencies, shelters, motels and inns.

Neighborhood Stabilization Program

The Neighborhood Stabilization Program (“NSP”) was established in order to stabilize communities that have suffered from foreclosures and abandonment. Funding (at least 25% of monies appropriated) is used to purchase and redevelop foreclosed and/or abandoned homes and residential properties. Activities funded through the program must benefit low and moderate income individuals whose income does not exceed 120% of the area’s median income.

NSP funds are provided to non-profits and other housing entities to acquire and rehabilitate vacant foreclosed homes. They are then sold to first-time homebuyers as affordable housing. Under the program, the New York State Affordable Homeownership Program provides loans and grants up to \$25,000 for first-time home buyers.

Emergency Shelter Grant Program

The Emergency Shelter Grant (“ESG”) program provides funds for emergency shelters and transitional housing that helps people lead independent lives. Subgrantees use ESG funds to rehabilitate and operate these facilities and provide essential social services with the intention of preventing homelessness. The ESG Program strives to help homeless individuals and families, and subpopulations within this group, including victims of domestic violence, at risk youth, the mentally ill, families with children, as well as veterans.

Lead Hazard Reduction Program

In partnership with HUD’s “Healthy Homes” Initiative, the Lead Hazard Reduction Program looks to eliminate the hazard of lead poisoning in young children. Single Family and Multi-Family dwellings that meet eligibility requirements can apply for the abatement of potential lead hazards in the home. Nassau County provides for lead testing, remediation of the hazard (if found through testing), oversees the bid process and the eventual abatement performed by approved, certified contractors.

Appendix B – Office of Housing Response and Auditor’s Follow-up

EDWARD P. MANGANO
COUNTY EXECUTIVE



JOHN SARCONI
EXECUTIVE DIRECTOR

COUNTY OF NASSAU
OFFICE OF HOUSING & COMMUNITY DEVELOPMENT
40 MAIN STREET – SUITE A – EXECUTIVE OFFICE
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October 15, 2012

Hon. George Maragos
Nassau County Comptroller
Office of the Comptroller
240 Old Country Road
Mineola, NY 11501

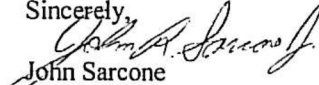
Re: Limited Review of the Office of Housing & Community Development Grants Administration

Dear Mr. Maragos,

Attached please find the Office of Housing & Community Development’s response to the Limited Review conducted by your staff.

I would like to thank you and your staff for their professionalism during this process and for giving us an opportunity to respond to the findings. We look forward to continuing to work with your staff to address any outstanding issues or concerns.

Sincerely,


John Sarcone
Executive Director

Review Finding (1):

The Former Director Submitted Inflated Spending Budgets to the County Legislature from 2007-2010

Review Recommendations:

OHCD should carefully and accurately develop future Housing budgets that are properly supported by documentation from the granting authority. Specifically, these budgets should accurately reflect the number of Section 8 vouchers in relation to the State program. Further, reconciliation of grants must take place in a timely manner and other internal controls put in place to avoid inflated budgets and expenses.

OHCD Response:

OHCD Agrees with the findings related to the budgets submitted by the prior administration.

Auditor’s Follow-up:

We reiterate that grant reconciliations are an integral part of adequate internal controls and must be performed on an on-going basis as 90% of the Department’s budget is derived from grants.

Review Finding (2):

Overstaffing Beginning in 2007 Contributed to a \$6.2 Million Charge against County Revenue in 2011

Review Recommendation:

OHCD should continue analyzing the workflow process to determine which positions are most critical and eliminate others. OHCD needs qualified accounting staff, appropriately trained in grants management, to properly monitor the grants.

OHCD Response:

OHCD agrees with this finding and continues to evaluate the necessity of job positions and titles, weighing fiscal considerations against the need for qualified staff in the areas of program and grant management.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (3)

Prolonged Failure to Perform Grant Reconciliations Violates County and Federal Internal Control Guidelines

Review Recommendations:

OHCD should:

- a) Establish policies for the administration of grants that include periodic reconciliations, at least on a quarterly basis, of all grants to NIFS that match revenues with the corresponding expenses;
- b) Have an experienced grant accountant perform OHCD’s grant reconciliations. Until that is accomplished, OHCD should hire an independent auditing firm to set up the reconciliation process;
- c) Obtain grant training wherever possible to enhance county grant expertise. Ensure that the questionnaires required at the end of the fiscal year are submitted in accordance with the schedule requested by the Comptroller's Office, and include any reconciling items; and
- d) Reduce staffing to reflect the reduction in federal grant revenue.

OHCD Response:

OHCD has begun a nine-month calendar year reconciliation, which will make the department’s reconciliations current as of September 2012, as the first phase of implementing the audit recommendations.

Auditor’s Follow-up:

We concur and reiterate that accurate grant reconciliations are essential to the process, as noted in the 2011 Nassau County Single Audit Report.

Review Finding (4):

The Former Director and Former Fiscal Manager Misused Two Different Village Housing Authority Bank Accounts

Review Recommendation:

OHCD should consult with Federal/State Housing officials, the County Attorney, and the County Treasurer on how to properly proceed with these accounts.

OHCD Response:

OHCD will open a dialogue with the appropriate parties to determine how to proceed with the accounts.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (5):

Irregular Payments Issued from Non-County Housing Bank Accounts are Under Investigation by the HUD Inspector General for Improprieties

Review Recommendations:

OHCD should:

- a) Ensure that all professional services contracts are obtained using the County’s procurement and contract approval processes;
- b) Work with HUD to determine the propriety of all payments made through these accounts due to possible criminal activity;
- c) Pay employee reimbursements through the Comptrollers Office’s claims process; and
- d) Ensure that payments for authorized business expenses should also be routed through the Comptrollers Office’s claims process.

OHCD Response:

OHCD is no longer using these accounts for any service or payments except those relating to the disbursement of Housing Assistance Payments for Section 8 tenants. Contracts for personal services, employee reimbursements, and authorized business expenses are being routed through the proper County channels and are tracked in the NIFS system.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (6):

Possible Theft of Section 8 Funds by Former Fiscal Manager in the Amount of \$125,700 was Uncovered

Review Recommendation:

OHCD should work with investigators to determine the appropriate course of action to recoup these funds.

OHCD Response:

In the event that the former Fiscal Manager is convicted of misappropriating these funds, OHCD will consult with federal investigators and/or the County Attorney’s Office and/or the District Attorney’s Office to seek reimbursement.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (7):

Services Claimed Pursuant to an Unexecuted Contract Exposes the County to a Potential Liability in Excess of \$200,000

Review Recommendations:

OHCD should consult with the Office of the County Attorney to resolve the potential liability from this unexecuted contract. All other irregularities must be investigated with the appropriate follow-up by law enforcement agencies. In the future, no vendor should be permitted to provide grant funded services without a completely executed and approved contract.

OHCD Response:

OHCD has had meetings with this vendor to attempt to ascertain a better understanding of the vendor’s position, to no avail. OHCD will continue to consult with the County Attorney as necessary. OHCD is no longer proposing to enter any contracts for shelter programs that are not under the auspices of the Emergency Housing program with DSS.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (8):

Former Director Purchased Over \$120,000 of Installed Modular Furniture which Currently Sits Unused in Basement

Review Recommendations:

The Department of Housing needs to contact County Facilities to determine if there is a need in the County for an agency to relocate to this office. Alternatively, Facilities Management could have their staff disassemble and reassemble this office in another area of the County, or, this furniture should be listed for bids and sold to the highest bidder to recoup some of the funds.

OHCD Response:

OHCD attempted to return the furniture to the manufacturer, but was unable to do so because it had been custom-made and was already installed. Facilities Management is aware of this, and is examining uses for the space and furniture.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (9):

The Contract for Foreclosure Counseling Awarded by Former Director did not follow the County’s Established Procurement Process and the Associated Billing Contained Irregularities

Review Recommendations:

Going forward, the Office of Housing and Community Development should:

- a) Obtain Requests for Proposals (“RFP”) for professional services to ensure the best possible service is obtained at a competitive rate;
- b) Avoid contracting for professional services whenever possible, through the utilization of Nassau County's own employees. The expertise and professional qualifications of County employees should be enhanced through training;
- c) Ensure that the terms of insurance policies cover the full term of the contractual agreement (including any pro bono services);
- d) Attempt to recover \$4,166.50 from the contractor for the two days (February 3-4, 2009) where evidence from the conference website indicates she was in San Francisco, California on behalf of her own company;
- e) Develop departmental claim voucher review procedures to ensure that vouchers are reviewed for adequate supporting documentation and duplicate or overlapping dates of

Appendix B – Office of Housing Response and Auditor’s Follow-up

service before the claim vouchers are forwarded to the Comptroller’s Vendor Claims Section for approval; and

- f) Ensure hourly and daily payment rates are detailed in any contractual agreement.

OHCD Response:

This contract and its corresponding vouchers were submitted by the prior administration. OHCD’s current contract process adheres to County procurement and contract procedures. OHCD will consult with the County Attorney’s office regarding recovering the \$4,166.50.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (10):

OHCD is not Organized for Optimal Grant Management due to the Lack of Continuity of Staff

Review Recommendations:

The County’s Administration should consider the need for continuity in the administration of OHCD and its various grant programs. Consideration should be given to ensuring that some experienced Accountants, Grant Managers, and employees trained in fraud prevention techniques are hired. Classifying a few key financial managers under the County’s General Fund, rather than the Grant Fund, should also be considered, to ensure that continuity of staffing is maintained during periods when grant funding may be curtailed or cut.

OHCD Response:

OHCD fully agrees with the importance of continuity of staff for optimal grant management, and will consider and pursue the avenues suggested.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (11):

OHCD Failed to Reconcile a Bank Account as Required by the County Executive’s Directive²⁰

Review Recommendations:

OHCD should rectify this situation immediately by performing bank reconciliations on this account. Reconciliations should begin with the inception of the grant. These should be submitted to both the Offices of the Comptroller and the Treasurer.

OHCD Response:

This grant was a stimulus grant which ended in July 2012. This reconciliation is being performed in connection with the grant close-out.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department. The Comptroller’s Office would like to receive the complete grant reconciliation. Please also provide the grant close-out entries indicating that the \$250,000 advance to Housing has been returned to the Treasurer’s Office.

Review Finding (12):

OHCD’s Late Benefits Reconciliation Caused an Overpayment to a Former County Employee in the Amount of \$3,913

Review Recommendations:

- a) OHCD should pursue, through the County Attorney, options for the County to recover this overpayment; and
- b) OHCD should review its payroll policies to ensure that a process is in place to stop paychecks for terminated employees.

OHCD Response:

The matter was referred to the County Attorney’s Office in approximately March 2012.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

²⁰ Directive No. 9 dated April 21, 2011.

Review Finding (13):

Auditors Confirm the Existence of Additional Potential Liability of \$664,000

Review Recommendations:

OHCD should:

- a) Ensure that sufficient funding is in place to cover the expenses related to terminated employees; and
- b) Review current staffing levels to reflect reduced grant revenue.

OHCD Response:

This issue is constantly under review in consultation with County administration. All staffing changes are carefully considered in light of the need to maintain program continuity and keep staff experienced in grant management.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (14):

Excessive Hiring at OHCD Has Led to a Termination Pay Liability Extending Through the Year 2015

Review Recommendations:

OHCD must ensure that the Administration and OMB are advised of the \$292,296 of estimated termination pay liability exposure for the period 2012 through 2015. If additional OHCD staff terminations take place before year end, the termination pay impact should be dollarized in a timely manner to ensure that funding will be available.

OHCD Response:

OHCD has been in constant contact with OMB regarding the three-year potential termination pay liability exposure, and will advise OMB well before any terminations take place to ensure that pay liability is properly analyzed.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.

Review Finding (15):

The Method for Paying Employees from the Grant Fund has caused OHCD Recurring Payroll Complications and needs to be Modified

Review Recommendations:

OHCD, through the OMB, should set up a general fund account to cover one quarter’s salary allocation. This would allow OHCD assurance that employees would be paid without this bi-weekly interruption. Because this account would only have a quarterly allocation amount, it would require journal entries to be prepared moving salaries from the general fund to the correct grant fund account each quarter. OMB would monitor this on a quarterly basis as well, so that overspending due to overstaffing can immediately be addressed by the County Administration.

OHCD Response:

OHCD will monitor this issue in conjunction with OMB in a timely manner.

Auditor’s Follow-up:

We concur with the corrective action being taken by the Department.