Homes and Community Renewal

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 | March 2023

OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller
Division of State Government Accountability

Audit Highlights

Objectives

To determine whether Homes and Community Renewal (HCR) has established and maintains adequate internal controls to oversee and monitor the federally funded Section 8 Housing Choice Voucher Program (HCV), the Section 8 Performance-Based Contract Administration Program (PBCA), and the COVID Rent Relief Program (COVID RRP) to ensure they meet requirements; and whether HCR is obtaining federal reimbursements on time and in a manner that recovers all eligible costs. This audit covers the period from January 2017 through March 2022.

About the Programs

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 is comprised of 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 HCV and the PBCA across the State. HCR also administered the 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.

While HCR administered a variety of programs prior to the COVID-19 pandemic, the unprecedented housing crisis caused by the pandemic escalated the need for programs that provide housing stability. As such, the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) provided funding for emergency economic relief for individuals, families, and businesses affected by the COVID-19 pandemic. HCR received about $9.5 billion in federal funding, including about $78.9 million through the CARES Act, for the three programs, as follows:

- $2.6 billion in standard HCV funds with an additional $31.7 million in CARES Act funding between April 1, 2017 and June 9, 2021;
- $6.8 billion in PBCA funds between April 1, 2017 and June 9, 2021; and
- $47.2 million through the CARES Act for the COVID RRP, which HCR administered between July 2020 and January 2022.

Key Findings

- We found improvements could be made in several areas, including voucher allocation and utilization and management of reserves. HCR has not met HUD's standard 95% HCV voucher utilization threshold at the statewide level during any full year covered in our scope. We also found that a significant number of geographic areas have utilization rates below HUD's standard threshold of 95%, and the number of geographic areas with low voucher utilization has increased significantly since 2018. Geographic locations with low utilization vary, with some areas having a high number of issued and unused vouchers and others having allocated fewer vouchers than were available. For example, on average, less than 83% of available vouchers were used in the eastern area of New York City for all five years during our scope and the utilization rate in rural Schuyler County decreased from 85% to 78% during the last three years of our audit scope. In eastern New York City, between April 2017 and March 2022, only about 82% of allocated vouchers were issued, but about 99% of families that were issued vouchers were able to use their vouchers and find suitable housing. In Schuyler County, about 99% of allocated vouchers were issued and only 87% of the vouchers were used by the families they were issued to.

- During the same period when voucher utilization was low, HCR had significant reserves available to improve utilization. This included reserves available to directly fund housing subsidies as well as administrative reserves that could have been used to increase participation throughout the State. We estimate that HCR could have used approximately $16 million to $36 million in Housing Assistance Payment surplus to fund between 1,360 and 3,062 additional vouchers for calendar year 2021. In addition, rather than accumulating reserves, some of HCR's excess administrative fee reserves (which doubled to about $131 million during our scope) could be used for a variety of activities to increase program participation, such as outreach activities, and for dedicated staff to help participants find affordable housing or making owners and others involved in the rental process aware of the benefits of the program as well as State and local voucher non-discrimination laws.
- Although HCR has developed some controls to monitor Local Administrator (LA) compliance with inspection standards, we 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. We found 36 instances of owners and/or tenants failing to remediate deficiencies within the appropriate time frames, including 10 emergency deficiencies not repaired within 24 hours as required, with the longest taking 70 days to be remedied – exposing tenants to prolonged safety risks. Serious deficiencies in housing quality standards (HQS) that were not remediated timely included: no gas, exposed electrical wires, and faulty carbon monoxide detectors.

Key Recommendations

- 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.
- 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.

Office of the New York State Comptroller
Division of State Government Accountability

March 16, 2023

RuthAnn Visnauskas
Commissioner/CEO
Homes and Community Renewal
25 Beaver Street
New York, NY 10003

Dear Ms. Visnauskas:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for the tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Housing Trust Fund Corporation: Internal Controls Over and Maximization of Federal Funding for Various Section 8 Housing Programs and the COVID Rent Relief Program*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
HCR	Homes and Community Renewal	*Auditee*
CARES Act	Coronavirus Aid, Relief, and Economic Security Act of 2020	*Key Term*
Contract	Annual Contributions Contract	*Key Term*
COVID RRP	COVID Rent Relief Program	*Program*
HAP	Housing Assistance Payment	*Key Term*
HCV	Housing Choice Voucher Program	*Program*
HQS	Housing quality standards	*Key Term*
HTFC	Housing Trust Fund Corporation	*Division*
HUD	U.S. Department of Housing and Urban Development	*Federal Agency*
LA	Local Administrator	*Key Term*
PBCA	Performance-Based Contract Administration Program	*Program*
SDA	Security Deposit Assistance	*Program*
UNP	Unrestricted Net Position	*Key Term*
VMS	HUD's Voucher Management System	*System*

Background

Homes and Community Renewal (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 is comprised of 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 administered the 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.

While HCR administered a variety of programs prior to the COVID-19 pandemic, the unprecedented housing crisis caused by the pandemic escalated the need for programs that provide housing stability. As such, the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) provided funding for emergency economic relief for individuals, families, and businesses affected by the COVID-19 pandemic. HCR received about $9.5 billion in federal funding, including about $78.9 million through the CARES Act, for the three programs, as follows:

- $2.6 billion in standard HCV funds and an additional $31.7 million in CARES Act funding between April 1, 2017 and June 9, 2021;
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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. Similarly, PBCA provides project-based housing aid to low-income New Yorkers. While both programs provide housing assistance, a HCV subsidy is attached to a tenant and a PBCA subsidy is tied to a specific unit on a property. Public housing agencies receive federal funding and voucher allocations from HUD to administer programs such as HCV and PBCA. They can be local or state governments or other entities. While HCR administers the HCV program in various geographic locations throughout the State, it is only one of the many public housing authorities administering the program in the State. Localities, including counties, towns, and cities, also administer HCV programs at the local level. As of August 2022, for example, the New York City Housing Authority was allocated more than twice the number of vouchers as HCR at the statewide level.

HCR contracts with Local Administrators (LAs) to manage the HCV program at the local level and with a contractor to carry out core tasks of PBCA. HCR has full responsibility for the satisfaction of all contractual obligations with HUD. HCV and PBCA are both executed through Annual Contributions Contracts (Contracts) between HUD and HCR. HCV's Contract authorizes a certain number of housing vouchers that may be issued each year as well as annual appropriations by

Congress to fund the contractual agreement. HCR must have both the authority to issue a voucher and the funds available for each voucher. Federal regulations establish requirements for HCV and PBCA, including unit inspections, voucher allocations, and funding usage. Federal regulations also require the creation of an administrative plan and an operational handbook to guide officials administering HCV. HCR must expend and account for federal funding in accordance with federal regulations, the administrative plan, and the terms and conditions of its Contracts. Each year, HCR is subject to HUD's Section 8 Management Assessment Program review in which HUD uses performance indicators to assess HCR's management of HCV.

Housing Choice Voucher Program

Under HCV, LAs determine a family's eligibility and issue a voucher to them. Eligible participants who are issued vouchers are responsible for finding suitable housing. When suitable housing is found, a Housing Assistance Payment (HAP) is paid to the property owner directly by HCR on behalf of the voucher holder, who is then responsible for paying the difference between the actual rent charged and the amount subsidized by the program.

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 program started as a result of the COVID-19 pandemic but has since become a permanent program under HCV. Owners and tenants apply for SDA and must submit proof of tenancy to LAs overseeing the program. Under their funding agreement with HCR, LAs are required to submit reimbursement requests, including the proof of tenancy, to HCR for approval.

HUD monitors HCV performance by determining the percentage of voucher utilization achieved. A utilization rate of 95% or higher meets HUD's standard level of performance; where rates fall below 95%, HCV is considered underutilized and not fully optimizing leasing potential.

The owner, tenant, and LA all have obligations and responsibilities under HCV. HAP contracts require owners to maintain properties in accordance with HUD's minimum housing quality standards (HQS). LAs must conduct physical inspections of each unit under contract both at initial occupancy and at least annually to determine if the unit is decent, safe, and sanitary. Inspectors must use a standard HUD HQS inspection checklist, which requires inspectors to identify HQS deficiencies by their nature and location within the unit.

LAs are required to maintain a log of inspections that failed one or more HQS for HCR to review. The log allows HCR to monitor how many of the LA's HQS inspections fail and when issues are remedied. The logs should include names and addresses of the tenants, unit fail date, unit pass date, and name of the inspector. LAs must ensure that emergency HQS deficiencies (e.g., no hot water, missing smoke/carbon monoxide detectors) are remedied by the owner and/or tenant within 24 hours, and that non-emergency deficiencies (e.g., cosmetic damage) are remedied within 30 days of being identified. If HQS deficiencies are not remedied within the required time frames, HUD requires the LA to withhold HAPs – on the first of the month following the missed time frame – until adequate repairs are made or to terminate the HAP contract if the problem persists. For non-life-threatening violations, HCR allows LAs to accept owner-submitted verifications of repair when failed items do not necessitate an in-person inspection. These self-certifications must be completed and signed by both the tenant and owner in writing.

Any HAP funds that are disbursed but not spent during the calendar year are retained in a 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 for rental assistance payments on behalf of eligible program participants.

HUD has not provided specific requirements regarding reasonable HAP reserve levels, but its general guidelines suggest HAP reserves should not exceed 4% of the annual budget. HUD may also rescind reserves or offset future allocations based on the excess amounts of HAP reserves to ensure the national HAP proration is close to 100%. HUD could recoup excess reserves or reduce allocations for future award years if HCR issues less than 95% of its voucher allocation or budget during the contract term.

In addition to funding HAP payments, HUD pays HCR a monthly administrative fee to cover costs incurred in performing its responsibilities for HCV. The administrative fee is paid to HCR for each unit utilized under HAP contracts. The fee may only be used to cover administrative program costs incurred in accordance with HUD regulations and requirements. 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 (UNP). HUD may reduce or offset any administrative fee if HCR fails to perform its administrative responsibilities correctly or adequately under HCV or if it believes HCR's UNP reserves are too high.

Performance-Based Contract Administration Program

The PBCA contractor carries out most core tasks required by HCR's PBCA Contracts, including: conducting management and occupancy reviews; processing rent and utility allowance adjustments; paying monthly HAP to project owners; processing HAP contract renewals, terminations, and/or opt-outs; and responding to health and safety issues. HCR is responsible for all program functions and reporting requirements, including providing general program oversight and input on policy development and performing a quality assurance function for all contractor-assigned tasks. The Contract requires HCR to perform quality assurance measures to ensure that the contractor meets performance requirements. Quality assurance measures help to identify performance deficiencies; detect and prevent potential fraud, waste, and abuse of funds; and identify processes/procedures to prevent, detect, and resolve conflicts of interest and to take corrective action against unsatisfactory performance.

COVID Rent Relief Program

HCR administered COVID RRP in two phases. The initial application phase (phase I) ran from July 16, 2020 through August 6, 2020. Due to certain eligibility requirements, many tenants did not receive assistance under phase I. To increase participation, on December 18, 2020, the Executive extended the program and expanded eligibility requirements. The extension (phase II) revised the rent burden criteria to no longer require applicants to provide proof of a rent burden prior to March 7, 2020. In contrast to phase I, phase II applicants only needed to show a rent burden during the coverage period, which was April 1, 2020 through July 31, 2020. Phase II applications were accepted between December 18, 2020 and February 1, 2021. During the two phases of the program, HCR received over 100,000 COVID RRP applications. Of these, 17,245 were approved and funds totaling approximately $47.2 million were disbursed.

Audit Findings and Recommendations

While HCR has established processes to monitor and expend HCV funds, we found improvements could be made in several areas, including voucher allocation and utilization and management of HAP and UNP administrative reserves. HCR is not fully utilizing its HUD-authorized HCV vouchers or budget to help families that are in need of housing assistance. In fact, of all public housing agencies in the country, HCR is among those with the highest number of units that remain unleased.[1] It also has not met HUD's standard 95% HCV voucher utilization threshold during any full year covered in our scope. Further, a significant number of geographic areas have utilization rates below HUD's standard utilization threshold of 95%, and the number of geographic areas with low voucher utilization has increased significantly since 2018. Utilization varies among locations, with some areas having a high number of issued and unused vouchers and others having allocated fewer vouchers than funding allowed. While HCR has taken steps to try to increase participation during the COVID-19 pandemic, HCV continues to be underutilized, and HCR hasn't fully investigated the specific reason why vouchers remain unutilized. HUD guidance indicates that there are differing reasons for the low utilization, and those reasons vary by geographic location. In some areas, low utilization is related to the lack of affordable housing, whereas in others it is related to issues with the LA's administration of the program. Determining the specific obstacles is a necessary first step to begin addressing the problems.

Further, during the same period when voucher utilization was low, HCR had significant reserves available to improve utilization. This included both HAP reserves available to directly fund housing subsidies and UNP administrative reserves that could have been used to increase participation throughout the State. We estimate that HCR could have used approximately $16 million (its surplus in excess of 4%) to $36 million (its entire surplus) of its HAP surplus to fund between 1,360 and 3,062 additional vouchers for calendar year 2021. In addition, rather than accumulating reserves, some of HCR's excess UNP administrative fee reserves (which more than doubled to about $131 million during our scope) could be used for a variety of activities to increase program participation, such as outreach activities, and for dedicated staff to help participants find affordable housing.

These large reserves are attributed, in part, to how HCR spent funding received from the CARES Act. To avoid losing any of the more than $31.7 million in HCV CARES Act funding, which needed to be expended by December 31, 2021, HCR officials chose to spend the entire amount to cover regular HCV expenses that are normally funded through HCV's reserves or standard funding streams. While HUD allowed CARES Act funding to be used for these purposes, because of the method by which HCR chose to spend it, little of the funding earmarked for COVID-19-related expenses went to prevent, prepare for, and respond to the COVID-19 pandemic. With thousands of families still facing excessive rent burdens and languishing on waiting lists, and the increased burdens on HCV recipients due to the rising cost of housing brought on by the COVID-19 pandemic, it is essential that HCR maximize

1 According to HUD's Data Dashboard, the number of vouchers that remain unleased is based on the public housing authority's number of unutilized vouchers and available HAP reserves.

the use of the federal funding available to it. Also, future HAP funding allocations are based on current year spending. As a result, unspent funds could lead to lower funding in the next budget calculation.

Although HCR has developed some controls to monitor LA compliance with HQS inspection standards, we found several areas that HCR could improve to better address health and safety concerns. These concerns could potentially result in injury to tenants or reductions/offsets to administrative fees by HUD. We reviewed all available HQS inspection checklists for 95 tenants at four LAs we visited, and found 36 instances of owners and/or tenants not remediating HQS deficiencies within the appropriate time frames, including 10 emergency HQS deficiencies not repaired within 24 hours as required, with the longest taking 70 days – exposing tenants to protracted safety risk. Serious HQS deficiencies not remediated timely included: no gas, exposed electrical wires, and faulty carbon monoxide detectors.

HCR has effectively established controls to provide contractor oversight and assurance that PBCA is functioning as intended. Each month HCR staff review documentation for a sample of core tasks performed by the contractor. Further, HCR made appropriate determinations for the 100 applications we reviewed under COVID RRP.

Maximization of Federal Funding

HCV Utilization

HCR is not fully utilizing its HUD-authorized HCV vouchers or budget. As shown in Table 1, HCR did not meet HUD's standard 95% HCV voucher utilization threshold during any year covered in our scope. For example, according to information from HUD, on average, HCR utilized only 44,704 of the 49,576 (90%) total vouchers available per month during 2021. Furthermore, HCR has become less efficient at utilizing vouchers since 2017. HUD's data shows that while HUD increased the average number of vouchers it allocated to HCR per month by approximately 1,100 units statewide between 2017 and 2021, the average number of units HCR leased per month remained relatively flat. One of the largest public housing agencies in the country, HCR is also among those with the largest numbers of units that remain unleased, based on its number of unused vouchers and HAP reserves. According to HUD data, as of August 2022, HTFC had the third highest number of additional units it could reasonably lease but did not.

Table 1 – HCR Statewide Voucher Utilization*

Calendar Year	Number of Vouchers Available per Month	Number of Units Leased per Month	Number of Vouchers Not Used	Utilization Percentage	Non-Utilization Percentage
2017	48,422	44,754	3,668	92.42%	7.58%
2018	48,581	44,350	4,231	91.29%	8.71%
2019	48,974	44,675	4,299	91.22%	8.78%
2020	49,211	45,004	4,207	91.45%	8.55%
2021	49,576	44,704	4,872	90.17%	9.83%

*Data are expressed as averages.

We also found that a significant number of geographic areas have utilization rates below HUD's threshold of 95%, and the number of geographic areas with low voucher utilization has increased significantly since 2018. According to HCR's statewide voucher utilization data, during State fiscal year (SFY) 2018, 30% of the State's 53 geographic areas receiving HCV funding through HCR utilized less than 95% of available vouchers. Since then, the number of geographic areas not utilizing at least 95% of available vouchers increased to over 76% in SFY 2022 (see Table 2).

Table 2 – HCR's HCV Utilization by Number of Geographic Areas

SFY	Utilization			No. Areas Receiving HCV Funding Through HCR	Percent Underutilized
	Low < 95%	Standard 95%–97%	High > 98%		
2018	16	16	21	53	30.19%
2019	25	22	6	53	47.17%
2020	32	18	5	55	58.18%
2021	29	22	5	56	51.79%
2022	45	9	5	59	76.27%

Geographic locations with low utilization vary, with some areas having a high number of issued and unused vouchers and others having allocated fewer vouchers than were available. Many geographic areas, in both rural and urban communities, consistently utilized less than 85% of their available vouchers. For example, on average, less than 83% of available vouchers were used in the eastern area of New York City for all five years during our scope, and the utilization rate in rural Schuyler County decreased from 85% to 78% during the last three years of our audit scope. In eastern New York City, between April 2017 and March 2022, only about 82% of allocated vouchers were issued, but about 99% of families that were issued vouchers were able to use their vouchers and find suitable housing. However, in Schuyler County, about 99% of allocated vouchers were issued and only 87% of the vouchers were used by the families they were issued to.

As shown in the Exhibit at the end of the report, low utilization did not just occur in areas known to have a tight housing market, like New York City. Rather, it was a problem that occurred across the State. In addition, while we identified both rural and urban communities with low utilization, the reason for the low utilization varied, with some areas having a high number of issued and unused vouchers and others having allocated fewer vouchers than funding allowed.

According to HUD, a low voucher utilization success rate indicates that there are issues hindering voucher holders from leasing. Officials at two of the five LAs we visited stated that they are experiencing increased difficulty placing HCV recipients due to the rising cost of housing brought on by the COVID-19 pandemic. Even though low voucher utilization is a common issue across the State, officials from all five of the LAs interviewed expressed that they maintain long waiting lists. For example, officials at one LA stated that the waiting list for Westchester County contained over 5,000 applicants as of April 6, 2022 and was closed for approximately 10 years between 2011 and 2021.

HCR acknowledged that voucher holders are often unsuccessful in locating housing or take a considerable amount of time to successfully locate housing, and that finding suitable housing has become increasingly challenging since the COVID-19 pandemic began. Officials also said that program attrition resulting from port-outs (i.e., voucher holders transferring their rental subsidy to another public housing agency), voluntary withdrawals, and death also naturally lowers the number of vouchers utilized.

HCR has taken steps to try to increase participation during the COVID-19 pandemic. For example, HCR offered SDA funds to both new HCV recipients and tenants who relocated after May 15, 2020. In addition, HCR increased per-unit administration fees paid to LAs under their contracts and permanently instated a Landlord Incentive Program to increase owner participation in the HCV program. The Landlord Incentive Program provides owners an additional one-time bonus payment for each new unit leased to HCV participants. Additionally, HCR officials temporarily increased payment standards for all counties served to increase acceptable rent amounts for participants. Further, HCR officials stated that they recently issued the largest single allocation of competitively awarded project-based vouchers to increase future utilization rates. HCR officials also cited the procurement of a new technology solution which they believe will further improve the HCV program and increase voucher utilization. The original implementation target date was January 2021, but HCR had not yet implemented the new system during our audit scope. Officials stated they anticipate the new technology solution to be implemented during the first half of 2023.

Despite these efforts, HCR's HCV program continues to be underutilized. HCR hasn't fully investigated the specific reason why vouchers remain unutilized outside the general obstacles noted above. Determining the specific obstacles is a necessary first step to begin addressing the problems.

Further, the events of the COVID-19 pandemic significantly impacted HCR's programs, ultimately highlighting weaknesses in HCV. Going forward, HCR should build these into future risk assessments to consider the range of possible hinderances to the program and develop solutions so that it is prepared to address issues and manage voucher utilization. HUD also offers substantial guidance and tools to address difficulties of running an optimized HCV program. For example, HUD guidance suggests, when needed, funding additional administrative functions with HCV funds aimed at increasing applicants – which could address some program attrition. These costs can support housing search assistance such as transportation costs to potential units and landlord and tenant mediation. It could also fund direct staff to aid participants in finding available housing. These activities could aid in increasing utilization.

Excess Reserves

During the same period when voucher utilization was low, HCR had significant reserves available to improve utilization. This included both HAP reserves available to directly fund housing subsidies and UNP administrative reserves to increase participation throughout the State.

We attempted to determine the full amount of funding HCR had available to use in the audit scope; however, due to problems with the accuracy of HCV financial data that HCR maintains, we were unable to do so. HCR officials provided conflicting information regarding HCV funding, reserves, and spending and, ultimately, we were unable to fully reconcile the financial figures HCR provided. HCR officials also could not fully reconcile the data at a given period in time because HCV is a dynamic program serving a large population that changes daily. HCR should address the limitations of the system, which hinder its ability to effectively monitor the program. Officials stated that the new technology solution will be implemented in 2023, along with certain HUD system updates, which should improve their ability to reconcile financial data. Officials said they also plan to revisit HCV accounting staffing levels and procedures. HCR officials should ensure these changes are implemented as quickly as practicable to allow access to reliable financial data.

Although we could not fully reconcile the financial data provided by HCR, we used HUD's reconciled data that HCR officials pulled from HUD's Voucher Management System (VMS), to obtain an overall sense of HAP funds that were available to help more families. HUD uses VMS to monitor and manage use vouchers. We found that HCR ended each year during our scope with a large surplus of HAP funds (see Table 3).

Table 3 – Estimated HAP Funding, Spending, and Surplus

Calendar Year	Total Available Funding*	Total HAP Spending	Total HAP Surplus
2017	$465,103,489	$455,078,482	$10,025,007
2018	$481,783,142	$463,889,905	$17,893,237
2019	$496,917,299	$475,394,948	$21,522,351
2020	$526,533,405	$505,843,162	$20,690,243
2021	$559,126,183	$523,299,353	$35,826,830

* Includes HCR's annual budget, beginning Restricted Net Position, and beginning HUD-held reserves.

While we recognize that a reasonable level of reserves is a prudent program management tool, excess reserves also represent unserved families facing severe rent burdens. In addition, unspent funding could result in reductions to future allocations. HUD may also rescind or offset HAP reserves if they are deemed excessive by Congress.

Based on the financial data provided by HCR officials and monthly per-unit costs from HUD's data, we estimate that in 2021 HCR could have used approximately $16 million (its 2021 surplus in excess of 4%) to $36 million (its entire surplus) of its HAP surplus to fund between 1,360 to 3,062 additional vouchers (see Table 4).

Table 4 – Estimated Excess HAP Funds and Vouchers

Calendar Year	HAP Surplus Exceeding 4% of Annual Budget		Total HAP Surplus	
	Surplus	Number of Vouchers	Surplus	Number of Vouchers
2017	N/A	N/A	$10,025,007	986
2018	$1,058,817	101	$17,893,237	1,711
2019	$4,313,341	405	$21,522,351	2,024
2020	$4,048,130	360	$20,690,243	1,841
2021	$15,911,176	1,360	$35,826,830	3,062

HUD also does not pay administrative fees for unleased units. As a result, HCR will not receive federal funds for any administrative fees associated with the unused vouchers.

Furthermore, while HCR's budget increased by about $90 million (over 20%) throughout our audit scope, the average voucher utilization rate decreased (see Table 1). For example, in 2017, HCR leased an average of 44,754 vouchers and was authorized to spend about $445 million. In 2021, HCR leased a slightly lower average of 44,704 vouchers, but was authorized to spend nearly $535 million, indicating HCR could improve use of voucher allocation and budget to increase HCV participation.

HCR's levels of UNP administrative fee reserves, which more than doubled during our scope (see Table 5), also indicate that HCR has the administrative resources to improve utilization. While HUD has not issued firm guidance on the appropriate level of UNP administrative fee reserves, HCR officials stated they aim to maintain $50 million in UNP reserves to cover at least one year of administrative expenses. However, as of December 31, 2021, HCR's UNP administrative fee reserves totaled about $131 million – more than double the reserve amount from December 31, 2017, about three times more than the amount HCR noted it should maintain, and about triple the amount of its actual annual expenses, which averaged about $40 million per year during our scope.

Table 5 – HCR Calendar Year-End UNP Administrative Fee Reserves

Calendar Year	Year-End UNP
2017	$59,654,238
2018	$68,999,219
2019	$81,920,888
2020	$94,306,252
2021	$130,576,977

Part of the spike in the reserves between 2020 and 2021 can be attributed to how HCR chose to use CARES Act funding it received during the COVID-19 pandemic. To avoid losing any of the over $31.7 million in HCV CARES Act funding, which needed to be expended by December 31, 2021, HCR officials chose to spend the entire amount to cover regular HCV expenses that are normally funded through HCV's reserves or standard funding streams. Of the over $31.7 million in CARES Act funding, HCR used about $20.6 million to cover regular administrative fee expenses, such as statewide program management and local lease-up activities, and about $11.1 million for supplemental HAP payments during the COVID-19 pandemic. By using the CARES Act funding for expenses typically paid through normal federal funds and spending little on COVID-19-related expenses from its reserves, HCR significantly increased its UNP administrative fee reserves.

While HUD allowed CARES Act funding to be used for these purposes, because of the method by which HCR chose to spend it, little of the funding earmarked for COVID-19-related expenses went to prevent, prepare for, and respond to the COVID-19 pandemic. HCR spent only about $4.2 million on COVID-19-related expenditures prior to December 31, 2021. The $4.2 million included about $2 million to fund SDA and about $2.2 million disbursed to LAs for other COVID-19-related expenses, such as masks and new equipment to facilitate remote work. While we recognize that HCR prevented the loss of these CARES Act funds by quickly using them to pay normal expenses, the CARES Act was intended to provide timely COVID-19 pandemic relief to the State, not to offset normal program costs. HCR officials stated they will continue to use some of their HCV UNP administrative fee reserve funds for COVID-19 pandemic-related purposes.

Rather than accumulating reserves, excess UNP administrative fee funds could be used for a variety of activities to increase program participation, such as outreach activities, and for dedicated staff to help participants find affordable housing. With thousands of families still facing excessive rent burdens and languishing on waiting lists, it is essential that HCR maximize the use of the federal funding available to it. Also, future HAP funding allocations are based on current year spending. As a result, unspent funds could lead to lower funding in the next budget calculation. Moreover, while HCR is allowed to roll over unspent funds into reserves, HUD has the authority to rescind or offset excessive reserves, further lowering HCR's ability to serve families in low-income communities.

Internal Control Weaknesses

HCV HQS Inspections

Although HCR has developed some controls to monitor LA compliance with HQS inspection standards, we found several areas that HCR could improve to better address health and safety concerns, which could potentially result in injury to tenants or reductions or offsets to administrative fees by HUD.

We reviewed all available HQS inspection checklists for 95 tenants at four of the five LAs we visited and found 36 instances of owners and/or tenants not remediating deficiencies within the appropriate time frames. This included 10 emergency deficiencies not repaired within 24 hours as required, with the longest taking 70 days – exposing tenants to protracted safety risk. Serious deficiencies not remediated timely included: no gas, exposed electrical wires, and faulty carbon monoxide detectors.

Additionally, we found 25 instances where the inspections were inaccurately documented or not documented at all in the LA's failed inspection log and seven instances of inspectors wrongfully designating faulty or missing smoke and carbon monoxide detectors as non-emergency deficiencies, thus allowing these repairs to be subject to the 30-day deadline rather than the one-day requirement directed by HUD.

HCR requires LAs to withhold HAPs on the first of the month following the deadline when owners fail to meet repair time frames – this allows the owner additional time (sometimes as much as 30 additional days) to repair items without penalty. However, HCR should explore other options to improve the timeliness of owner repairs to units, such as increased inspections for repeat offenders or repair incentive programs.

Additionally, we found four instances where an inspector had inappropriately signed documents using the names of two other inspectors. One of the two inspectors confirmed that, while they both were present at the inspection, his own signature had been used in one case but could not explain why. The second inspector was not available during our site visit to confirm whether the signature accurately reflected who performed the inspection.

We also found instances where owners attested, using the self-certification forms, that deficiencies were corrected but subsequently appear not to have been. We found five instances at two LAs where owners certified a repair was made, but at a following inspection the deficiencies still existed. For example, during an annual inspection in 2018, a broken bedroom door deficiency was issued, and the owner later submitted a self-certification form attesting the deficiency was corrected. However, during a 2019 inspection, the same door was still damaged, and another deficiency was cited. The owner again attested the door was repaired, and during the following year's annual inspection the deficiency was again cited – this time the door was found to be missing altogether. In another instance, the LA accepted a self-certification for water damage and mold in a unit's bathroom. Just one month later, the tenant submitted a complaint and requested that the LA reinspect the unit. The LA reinspected the unit and found that the original deficiencies still existed.

Self-certifications are permitted and, according to one LA we interviewed, sometimes necessary because of the volume of inspections and deficiencies found in certain jurisdictions. Further, according to HCR's guidance, LAs should incorporate the severity of the deficiencies and their experience with the property owner into their verification processes. While the self-certification process may be necessary, it does not relieve HCR and LAs of the federal requirement to implement controls to verify that deficiencies are mitigated. HCR could increase its oversight of this area. While HCR officials review a sample of inspections during annual reviews, they did not identify the issues we found with self-certifications. HCR could direct LAs to increase the verification processes and inspections for owners with a history of inaccurately attesting to repairs made. Improvements to the verification process may include requiring supporting documentation be submitted with self-certifications. For example, one LA we visited required photographs of the repaired deficiency be submitted with the self-certification – we found no issues with the certification process at that LA.

Although inspectors are required to follow a HUD checklist, HQS inspections can often be subjective in nature. For example, at one LA, for the period January 2017 through August 2018, inspectors failed 35 units during inspections. In September 2018, a new administration took over, and the LA failed 384 units between September 2018 and May 12, 2022. LA officials stated that the prior administration maintained a lower inspection standard, which they attributed to a fear of losing owner participation and therefore available units. The new administration made drastic changes to the inspection process, which HCR officials acknowledged improved the quality and quantity of the inspections the LA conducted.

Due to the subjectivity LAs can inject in the inspection process, it is important that HCR oversee LAs' inspections to enhance consistency and ensure HUD's minimum standards are met. However, HCR hasn't dedicated sufficient resources to monitor this area. HCR has just one full-time employee to directly oversee LA inspection activities, but their work is limited to conducting quality control activities of just one LA in New York City. Any further monitoring is limited to a desk review of certain documents the LAs submit.

HCR officials stated that they are exploring options to increase the level of quality control and oversight for LA inspections, including purchasing new technology to provide oversight of inspectors and utilizing a contractor to monitor inspection results. HCR is also considering the possibility of establishing a housing repair fund to provide assistance to smaller owners renting to Section 8 households to bring their properties into HQS compliance.

Security Deposit Assistance

The SDA, initially established as a temporary measure at the beginning of the COVID-19 pandemic to assist tenants when they enter into a new lease agreement, has since become a permanent component of HCV. About $2 million in UNP administrative fee reserve funds were used to support the SDA. HCR, however, provided little oversight of LAs' use of these funds. SDA determinations were left solely up to LAs, with limited information collected by HCR for general tracking purposes. Although HCR exercised little oversight over the SDA, of the 147 applications we reviewed, we did not identify any incorrect eligibility determinations made by LAs. However, as this program has transitioned to being permanent, HCR should establish basic internal controls to reduce the risk of errors or fraud going forward.

PBCA

HCR has effectively established controls to provide contractor oversight and assurance that PBCA is functioning as intended. Each month HCR staff review documentation for a sample of the core tasks performed by its contractor. Documentation reviewed includes status reports, monthly invoices, and system data entries, such as vouchers into several HUD systems. HCR officials review that documentation to ensure the contractor is in compliance with federal requirements for each core task performed.

We examined a total sample of 60 quality assurance reviews conducted by HCR of its contractor, and found that HCR's reviews were effective in identifying problems and that HCR worked with the contractor to remedy the issues. Of the 60 quality assurance reviews we examined, HCR identified issues on 41 (68%). In each of the 41, HCR worked with the contractor to correct the problems and ensure federal requirements were achieved. Further, HUD conducted five annual compliance reviews of PBCA between 2017 and 2021 and did not find any instances of non-compliance, resulting in HCR receiving all administrative fees it was due.

COVID RRP

We found HCR properly reviewed and processed applications received under COVID RRP. We reviewed 100 applications submitted under phases I and II of COVID RRP and found HCR made appropriate determinations for all applications. However, nine continued to be marked as pending in HCR's system for various reasons though they were essentially closed. For eight of the nine, HCR officials were waiting on additional information from the tenants (e.g., completed tax forms). The remaining application was flagged for fraud and is currently being reviewed for possible law enforcement action. Officials stated they will update the statuses of these nine cases in their system.

Recommendations

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.
2. Develop and implement solutions to financial management systems to improve the reliability and usability of programmatic financial data.
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.
4. Develop and implement internal controls over the SDA.

Audit Scope, Objectives, and Methodology

The objectives of our audit were to determine whether HCR has established and maintains adequate internal controls to oversee and monitor the federally funded HCV, PBCA, and COVID RRP programs to ensure they meet requirements; and whether HCR is 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.

To accomplish our objectives and assess related internal controls, we reviewed relevant policies, procedures, laws, regulations, and program instructions. Our audit findings cover different periods for each program – HCV: January 2017 through March 2022; PBCA: April 2017 through September 2021; and COVID RRP: July 2020 through January 2022. We conducted interviews with HCR officials to gain an understanding of their role in administering the HCV, PBCA, and COVID RRP programs, including their system of internal controls and management of federal funds. We also conducted interviews with HCV LAs and the PBCA contractor to gain an understanding of their roles in administering their respective programs. HCR conducts annual internal risk assessments for the HCV and PBCA programs. However, officials refused to share the details of those assessments with us, stating that disclosing the details would pose a security risk to HCR's business practices. As a result, auditors were unable assess the adequacy of these internal risk assessments or whether they would have had an impact on our audit. In addition, officials stated they have not conducted any internal audits of the HCV, PBCA, or COVID RRP programs during our audit scope.

We also interviewed officials and conducted testing at a judgmentally selected sample of five of 32 LAs administering the HCV program, as of January 2021, to determine whether internal controls were appropriate and functioning as intended and to evaluate LA financial management practices. We selected the five LAs that generally served the highest number of geographic areas in New York. We judgmentally selected a total of 50 HCV tenant files from the five LAs (of a population of 13,699 files from the five LAs) and reviewed documentation, including HQS inspection checklists, initial applications, and voucher documents for each tenant file sampled. We selected our judgmental sample to include 10 tenant files from each of the five LAs with varying high-dollar HAP payments scheduled on behalf of each tenant. We then selected the first record (highest dollar amount) and every ninth record thereafter for a total of 10 tenants at each LA we visited. At four of five LAs, we also reviewed a total of 55 failed HQS inspection checklists from failed inspection logs. We considered various factors, including date of failed inspection and total number of failed HQS inspections, to judgmentally select the 55 failed HQS inspection checklists out of a population of 12,789. We used HUD's HCV Data Dashboard to determine if HCR fully utilized its HCV voucher allocations during the audit scope. Additionally, we used statewide voucher utilization reports from HCR's central Section 8 HCV system to determine how many HCV jurisdictions were fully utilizing their HCV voucher allocations during the audit scope. Furthermore, we reviewed 147 (of a population of 173) SDA reimbursement requests at the five LAs to verify that applicants met eligibility criteria and payments were made appropriately. The 147 reimbursement requests were judgmentally selected to include all requests at four of the five LAs and the first 25 (of 51) payment requests sent to the fifth LA. Of the 147 in our sample, we judgmentally selected 63 proofs of tenancy to review to verify that rent amounts were accurate. We selected the 63 requests to include all payment requests at two of the five LAs and the first five payment requests at the remaining three LAs. Finally, of the roughly $2.2 million disbursed to LAs for other HCV COVID-19-related expenses, we reviewed documentation for a judgmentally selected sample of 266 payments totaling $346,896 at the five LAs to verify that payments were only made for eligible purchases. We selected the 266 payments out of a total population of 347 payments at the five LAs we visited to include all payment requests at four of the five LAs and all costs incurred during 2020 at the fifth LA.

To verify HCR was adequately monitoring its PBCA contractor for compliance with applicable laws, regulations, and the Contract, we reviewed documentation for a judgmentally selected a sample of 60 PBCA quality assurance reviews performed (out of a population of 1,350) by HCR officials. We selected the 60 PBCA quality assurance reviews to include 10 in each of the six different categories (rent and utility allowance adjustments, voucher processing, special claims, call center complaints, contract renewals, and management and occupancy reviews) the contractor is responsible for. Within each category, we selected 10 reviews that either appeared to be outstanding or took the longest duration to close.

To verify whether HCR made appropriate eligibility determinations and payments were issued correctly for COVID RRP, we reviewed documentation for a judgmentally selected sample of 100 of the 102,287 applications submitted. We selected the sample to include applications with various statuses, including: 50 applications approved with an associated payment, five applications that were initially approved and issued a payment that was later returned, 35 applications that were denied, and 10 applications that appeared to be outstanding. The applications were selected based on various risk factors, such as high dollar amount and reason for denial.

We verified reliability of the statewide utilization data. However, we were unable to fully test HCR's HCV financial data, including its total available HAP funding, spending, and surplus, as well as its UNP for each year in our scope. Instead, we relied on the HCV financial data HCR officials pulled from their accounting system. This data is reconciled by HUD and used by both HUD and HCR to monitor and manage the program. HUD uses the VMS data to fund, obligate, and disburse funding. Although we could not fully test the accuracy of this HCV financial data, we found it was sufficiently reliable for us to use in aggregate for making overall conclusions. We also did not test the utilization and per-unit cost data from HUD's HCV Data Dashboard that we used to estimate the number of additional vouchers HCR could have funded. However, the information contained in HUD's HCV Data Dashboard is sourced from HUD's administrative systems that HUD uses to help assess public housing agencies' performance and make annual voucher and funding decisions. The information is publicly available and serves as the government standard for this information – HUD, public housing agencies, and LAs have a vested industry in the accuracy of the data, which provides some control. We used the information for only limited areas of our audit and used other corroborating data and sources when possible. In addition, while we conducted testing to verify the accuracy of PBCA and COVID RRP data for the sampled items we reviewed, we were unable to fully test the PBCA and COVID RRP data that we used to pull our samples for completeness.

The samples cannot be, nor were they intended to be, projected across populations as a whole.

Statutory Requirements

Authority

The audit was performed 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 conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds and other payments. These duties could be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our professional judgment, these duties do not affect our ability to conduct this independent performance audit of HCR's oversight and administration of Section 8 HCV, Section 8 PBCA, and COVID RRP programs.

Reporting Requirements

We provided a draft copy of this report to HCR officials for their review and formal comment. Officials generally agreed with our recommendations but took exception to our characterization of the HCV utilization findings. We noted that HCR's response includes multiple misleading and/or inaccurate statements regarding HCV utilization. Our responses to those statements are included as State Comptroller's Comments, which are embedded in HCR's response.

Within 180 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner/CEO of Homes and Community Renewal shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Exhibit

Percentage of Vouchers Allocated, Leased, and Pending for the Period April 2017 – March 2022

Geographic Area	Percentage of Allocated Vouchers Issued	Percentage of Allocated Vouchers Not Issued	Percentage of Issued Vouchers Used	Percentage of Issued Vouchers Not Used
Allegany County	94%	6%	96%	4%
Apple Meadow	54%	46%	99%	1%
Bronx & Queens	96%	4%	94%	6%
Broome County	116%	-16%	100%	0%
Cattaraugus County	98%	2%	97%	3%
Cayuga County	96%	4%	96%	4%
Chautauqua County	101%	-1%	94%	6%
Chemung County	105%	-5%	91%	9%
Chenango County	94%	6%	97%	3%
Clinton County	99%	1%	98%	2%
Columbia County	94%	6%	97%	3%
Delaware County	98%	2%	98%	2%
Dutchess County	101%	-1%	97%	3%
Embury	98%	2%	100%	0%
Essex County	98%	2%	99%	1%
Franklin County	102%	-2%	93%	7%
Genesee County	94%	6%	97%	3%
Greene County	99%	1%	95%	5%
Hamilton County	94%	6%	98%	2%
Herkimer County	93%	7%	95%	5%
Jefferson County	98%	2%	96%	4%
Lewis County	98%	2%	94%	6%
Livingston County	99%	1%	95%	5%
Madison County	92%	8%	96%	4%
Monroe County	97%	3%	100%	0%
Montgomery County	93%	7%	100%	0%
Nassau County	101%	-1%	93%	7%
New York East	82%	18%	99%	1%
New York North	88%	12%	97%	3%
New York	92%	8%	97%	3%
Niagara County	96%	4%	96%	4%
Oneida County	99%	1%	95%	5%
Ontario County	99%	1%	96%	4%
Orange County	100%	0%	97%	3%
Orleans County	93%	7%	94%	6%
Oswego County	98%	2%	96%	4%
Otsego County	97%	3%	97%	3%
Putnam County	100%	0%	96%	4%
Rockland County	99%	1%	99%	1%
Rockland County (Project-Based)	98%	2%	99%	1%
Saratoga County	98%	2%	97%	3%

Geographic Area	Percentage of Allocated Vouchers Issued	Percentage of Allocated Vouchers Not Issued	Percentage of Issued Vouchers Used	Percentage of Issued Vouchers Not Used
Schuyler County	99%	1%	87%	13%
Seneca County	97%	3%	99%	1%
St. Lawrence County	91%	9%	98%	2%
Steuben County	103%	-3%	91%	9%
Suffolk County	100%	0%	94%	6%
Sullivan County	103%	-3%	93%	7%
Tioga County	97%	3%	99%	1%
Tompkins County	102%	-2%	94%	6%
Town of Eastchester	77%	23%	92%	8%
Town of Hempstead	33%	67%	96%	4%
Town of Jay	94%	6%	99%	1%
Ulster County	100%	0%	96%	4%
Washington County	95%	5%	97%	3%
Wayne County	99%	1%	98%	2%
Westchester County	102%	-2%	95%	5%
Westchester County (Enhanced Section 8 Outreach Program)	74%	26%	97%	3%
Wyoming County	95%	5%	98%	2%
Yates County	94%	6%	98%	2%

NEW YORK STATE OF OPPORTUNITY. | Homes and Community Renewal | Housing Trust Fund Corporation

KATHY HOCHUL
Governor

RUTHANNE VISNAUSKAS
Commissioner/CEO

February 2, 2023

Ms. Nadine Morrell
Audit Director, Division of State Government Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Re.: 2022-S-28, Housing Trust Fund Corporation: Internal Controls Over and Maximization of Federal Funding for Various Section 8 Housing Programs and the COVID Rent Relief Program.

Dear Ms. Morrell:

HTFC appreciates the opportunity to respond to the above-referenced audit. The following are our responses to the reported audit observations and recommendations:

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.

Agency Management's Response:
The conclusions the draft Audit Report reaches about HTFC's utilization of its Section 8 Housing Choice Vouchers ("HCVs" or "vouchers") fail to recognize programmatic and budget limitations that prevent HTFC from utilizing all its HUD allocated vouchers.

The number of HCVs that HTFC can responsibly make available to eligible households is determined not only by the number of vouchers allocated by HUD but also by the budget authority made available to HTFC. The number of HCVs allocated to HTFC is the maximum number of vouchers that can be made available by HTFC subject to available funding. Due in large part to relatively high rents in certain areas of the State, HTFC does not have adequate budget authority to fully utilize all the HCVs allocated by HUD. HTFC cannot responsibly commit to vouchers for which it has insufficient federal funding without risking displacement of tenants and violating federal regulations.

HTFC's ability to utilize its HCV allocation is further limited by the need to maintain reasonable reserves to cover unforeseen cost increases, as discussed further below. If HTFC followed the recommendations in the draft Report, reserves would drop below the level recommended by HUD and HTFC would risk overcommitting vouchers, particularly at a time when affordable housing across the country is in short supply and rents have been rapidly increasing.

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Table 1 of the draft Report suggests that HTFC hasn't used thousands of HCVs that have been made available by HUD, but the Table does not account for either HTFC's limited budget authority or the need for HTFC to maintain reserves.

A more accurate and comprehensive picture of HTFC's HCV utilization is contained in the table below, which reflects the relevant factors. After accounting for reserves and HTFC's limited budget authority, the table shows that from 2017 through 2020 HTFC fully utilized its HCVs.

Calendar Year	Total Monthly Funding Available minus HUD Recommended 4% Reserves	Statewide Average Per-Unit Cost	Maximum Monthly Unit Months Leased based on Available Funding, minus Reserves	Average Monthly Unit Months Allocated by HUD	# of Vouchers allocated by HUD that HTFC could not utilize due to budget limitations	# of Allocated Vouchers Unutilized for which Funding was Available
2017	$37,275,294	$846.60	44,029	48,422	4,393	0
2018	$38,436,443	$871.06	44,126	48,581	4,455	0
2019	$39,486,342	$885.91	44,572	48,974	4,402	0
2020	$41,700,135	$936.42	44,531	49,211	4,680	0
2021	$44,007,456	$974.92	45,140	49,576	4,436	436[1]

State Comptroller's Comment – As noted on page 7, we recognize that HCR's ability to make vouchers available is determined by both its authority to issue a certain number of vouchers as well as the funds available for each voucher, and that the general guidelines suggested by HUD state the HAP reserves should not exceed 4% of the annual budget. We incorporated these limitations into our analysis of utilization. Table 1 of our report (page 12) shows the number of vouchers that were available to HCR and not used, and Table 4 (page 15) indicates how many of those unused vouchers HCR could have funded while maintaining a reasonable level of reserves.

In the table above, HCR incorrectly uses its total available funding as the basis for the total amount of reserves it should maintain. HUD guidance on HAP reserves is based on budget authority, not the amount of its reserve. Further, HUD's guidance on HAP reserves is a ceiling, not a floor, and states that for a program of HCR's size, HAP reserves should not exceed 4% of the budget authority. Since HAP funding is allocated based on past spending, HUD may have allocated additional funding during our scope if HCR had better utilized its resources.

In 2021, however, the impacts of the COVID 19 pandemic on voucher leasing rates became clear. Leasing nationally dropped throughout the audit period and plummeted in 2021 due to the pandemic.

[1] In 2021 the Maximum Monthly Unit Months Leased based on available funding (minus reserves) was 45,140. The Average Unit Months Leased in 2021 was 44,704, leaving 436 HCVs unutilized for which funding was available. In all other years included in the Audit scope, the Average Unit Months Leased exceeded the Maximum Monthly Unit Months Leased based on available funding (minus reserves), leaving no HCVs unutilized.

2

HUD data show that as of November 2022, the leasing rate for vouchers nationally was 86.4%, the lowest level in recent memory according to HUD officials. HTFC's leasing rate of 88.6% exceeds the national average. HTFC also exceeds the national average for spending its current budget authority. HTFC's percentage of spending for current budget authority stands at 96.06% compared to 95.65% nationally. HTFC's reserves are also less than half of the national average of 13.52%.

Despite these statistics showing that HTFC's performance exceeds national averages, the draft Report implies that HTFC underperforms compared to other public housing agencies ("PHAs") by stating that "HTFC had the third highest number of additional units it could reasonably lease but did not." This misleading statistic is attributable to HTFC being one of the largest PHA's in the country, a fact the draft Report highlights, and in no way reflects poor performance.

Notably, the draft Report fails to include any reference to a key metric; specifically, the metric HUD uses to assess the HCV utilization of PHAs. As the federal administrator of the Section 8 HCV Program, HUD assesses HCV utilization based on the percent of total units with Leasing Potential. Leasing Potential is calculated as the number of additional units a PHA could lease for a full 12 months, while maintaining adequate reserves. According to HUD data, as of June 2022, the percentage of additional units that HTFC could lease up was 5.55% compared to 5.32% nationally. HTFC's rate at that time was also lower than the average for PHAs in New York State. While this number fluctuates as new budget and voucher authority is allocated by Congress, HTFC remains in line with other comparably-sized PHAs across the country.

State Comptroller's Comment – HUD measures Leasing Potential in terms of both units and percentage. While we didn't label it as "Leasing Potential," on page 11 of the report, we state, "HTFC had the third highest number of additional units it could reasonably lease but did not." This is the same metric that HCR is referring to in this response – however, it is represented in terms of units rather than as a percentage. Regardless of HCR's national standing in terms of percentage, HCR is one of the largest public housing agencies and is in the position to help more people find affordable housing than most other public housing agencies in the nation.

HTFC is also concerned by the draft Report's conclusion that HTFC "became less efficient" during the audit scope. In support of this claim, the draft states that HUD increased HTFC's Unit Months Allocated ("UMA") by approximately 1,100 units between 2017 and 2021, but HTFC's UMA remained relatively flat. This conclusion ignores that HTFC's average monthly housing assistance payment ("HAP") jumped by almost 20% during the audit period, going from $846.60 to $1014.50. Again, higher costs mean HTFC can afford to fund fewer vouchers.

State Comptroller's Comment – Our analysis of utilization factored in the increased costs of housing during the audit scope. HUD factors in the per unit cost of housing when calculating UMAs, and the number of vouchers available per month (aka UMAs) in Table 1 (page 12) of our report came from HUD's HCV Data Dashboard.

The draft Report states that HCR has not fully investigated the specific reasons why vouchers remain unutilized. To the contrary, HCR staff met with Local Administrators ("LAs") both individually and as a group on a regular basis during and after the pandemic, and throughout 2022, HTFC's management team scheduled in person site visits with most LAs specifically to discuss utilization. The feedback from the LAs across the state was clear and reflects larger, national and statewide housing trends that have been widely reported: rents are rapidly increasing and there is a shortage of available affordable rental housing in the current market.

3

Based on its investigation, HTFC has taken a three-pronged approach to addressing recent challenges in overall utilization:

1. **Providing incentives and financial assistance so families with vouchers can lease up more quickly** - HTFC is providing security deposit assistance and landlord bonuses to help families compete for rental housing in a tight market. HTFC is utilizing Administrative Reserves (UNP) to cover these costs. Since launching these initiatives in May 2021, the program has spent in excess of $2.6 million to increase utilization.

2. **Increasing the supply of affordable housing by project-basing vouchers -** HTFC is utilizing its discretion as a PHA to competitively allocate project-based vouchers ("PBVs") using a portion of its overall voucher allocation to increase supply and ensure affordability. HTFC issued its PBV NOFA in the spring of 2022 and awarded 1,443 PBVs to 43 projects. Of those, 38 awards (1,257 PBVs) were issued to existing properties, many of which already have income-eligible tenants in place. A total of 16 projects (497 PBVs) have already executed HAP contracts and are utilizing their vouchers. In the fall of 2022 HTFC released a second NOFA that offered an additional 400 PBVs. This investment marks the single largest, competitive allocation of PBVs since HTFC began administering the HCV Program.

3. **Increasing payment standards to keep pace with a rapidly changing national and local rental market** – Starting in 2022, HUD provided additional flexibility to PHAs to raise their payment standards. In response, HTFC increased its payment standard across the board to 120% of the Fair Market Rent ("FMR"). In 2023, we are providing LAs with the opportunity to remain at 120% if local market conditions dictate this is necessary, despite a significant increase in HUD's calculation of FMRs for Fiscal Year 2023. Doing this will ensure that our tenants are able to afford housing while rent costs continue to rapidly increase. In addition, HTFC adopted Small Area Fair Market Rents in Dutchess and Tompkins counties to provide additional housing opportunities in ZIP codes that have traditionally presented affordability barriers to our program participants.

These strategies are already making a significant difference. Between August 2022 and January 2023, utilization increased each month, going from 43,983 to 44,544 - an increase of 561 vouchers (or 1.3 percent). HAP spending during that time increased from $45,198,492 to a preliminary total of $47,666,651. Spending on Landlord Incentives and Security Deposit Assistance also continues to climb, reaching $3.9 million in January – an indication that families are now able to secure housing.

To further support increased utilization and spending, HUD recently released HUD-held reserves due to HTFC's increased spending and the depletion of its reserves on hand. HUD also allocated additional voucher authority to HTFC, both through housing conversions around the State and through the allocation of 222 incremental vouchers as part of the Fair Share initiative. This additional voucher authority demonstrates HUD's confidence in HTFC's ability to utilize vouchers in a timely and effective manner.

HTFC will implement a new data solution in 2023, known as Emphasys Elite, that will streamline LA reporting and allow HTFC to better track utilization data in real time. HTFC is also contracting with CVR Associates, Inc. to speed up the process of pulling applicants, determining eligibility, and issuing vouchers for the new waiting list established for NYC in 2021. It is expected this will add an additional 500 leased up vouchers over the course of 2023. Finally, HTFC is exploring new partnerships to help enforce a 2019 New York State law making it illegal to discriminate against rental applicants based on Source of Income.

The draft Report states that HTFC had excess reserves available to improve utilization. In support of this claim, the draft includes Table 4 which purports to show that surpluses could have been used to fund thousands of additional vouchers. This Table, however, has a significant flaw. It does not recognize that once vouchers are awarded, they become a recurring cost to the Program that would significantly reduce available surpluses in future years. Table 4 of the draft Report is therefore not a useful indicator of the actual surplus funds available to the Program.

State Comptroller's Comment – We agree that if additional vouchers had been leased in any given year, it would have impacted HCR's surplus in subsequent years. However, Table 4 on page 15 of our report shows HCR's actual HAP surplus for each year during our scope and accounts for all costs actually incurred. We used the same criteria in Table 4 that HUD uses to evaluate the reasonableness of reserves in any given year.

Recommendation 2: Develop and implement solutions to financial management systems to improve the reliability and usability of programmatic financial data.

Agency Management's Response:
As noted in the Agency Management's Response to Recommendation 1, HTFC is implementing a new data solution, Emphasys Elite, during the first half of 2023. This system, along with improvements being made by HUD to its data systems, should continue to improve the reliability of HCV financial data.

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.

Agency Management's Response:
HTFC believes that the HCV Program substantially complies with federal requirements regarding Housing Quality Standards ("HQS") inspections. However, HTFC continues to work to improve its quality assurance. In December 2022, HTFC amended its New York City inspection services contract with CVR Associates, Inc. ("CVR") to provide quality control for inspections performed by other LAs across the state during the first half of 2023. CVR staff will accompany LA staff to review a percentage of previously conducted inspections and to ensure proper follow up. Since CVR performs inspections on behalf of HTFC in New York City and Westchester County, an HCR staff member will be responsible for quality control in those areas. The NYC inspection services contract will expire and be rebid later this year. As part of that re-procurement, statewide quality control will be incorporated in the contract's Scope of Work. Also, in December 2022, HTFC executed a Memorandum of Understanding with the New York City Department of Housing Preservation and Development ("HPD") to share HQS inspection data with City Code Enforcement staff when landlords fail to properly remedy health and safety items in a timely manner.

Recommendation 4: Develop and implement internal controls over the SDA.

Agency Management's Response: The Audit reviewed 147 applications for security deposit assistance ("SDA") and did not find a single incorrect eligibility determination. Despite the draft Audit Report's failure to note any instances of non-compliance, HTFC will consider whether additional internal controls are needed for SDA beyond those currently in place.

Additional Agency Management Comments:

Section 8 Performance-Based Contract Administration Program ("PBCA")

The draft Audit Report found that HTFC has established effective controls to provide contractor oversight and assurance that PBCA is functioning as intended. The Audit examined a total sample of 60 quality assurance reviews conducted by HTFC and found that HTFC's reviews were effective in identifying problems and that HTFC worked with the contractor to remedy the issues. Of the 60 quality assurance

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reviews examined as part of the Audit, HTFC identified issues in 41 (68%). In each of the 41, HTFC worked with the contractor to correct the problems and ensure federal requirements were achieved. The draft Report also noted that HUD conducted five annual compliance reviews of PBCA between 2017 and 2021 and did not find any instances of noncompliance, resulting in HTFC receiving all administrative fees it was due. We appreciate this recognition in this audit, as well as numerous others, of the competency with which the PBCA has and continues to oversee a multi-billion-dollar program, even in the face of historic challenges.

COVID Rent Relief Program ("COVID RRP")

The draft Audit Report found, over the course of a review lasting more than a year, that HTFC properly reviewed and processed applications received under COVID RRP. The Audit reviewed 100 applications submitted under phases I and II of COVID RRP and found that HTFC made appropriate determinations for all applications. Just eight weeks passed between the time the Governor signed COVID RRP legislation into law in early June 2020 and the first payments were issued to landlords on behalf of applicants. This was a truly remarkable achievement. To make it possible, HCR and its partners needed to: establish policies and procedures for the program; mobilize and train several hundred state and contractor staff; stand up fully functional call center, case management and appeals teams; respond to thousands of calls and emails received in the call center with minimal hold times; execute Memorandums of Understanding with three other state agencies to share income and subsidy data; and partner with the Office of Information Technology Services ("ITS") to create an on-line applicant portal, link data from other state and federal agencies to verify income, and establish a back-office, case management and appeals solution to process applications and issue payments. All of this happened in one summer and relied on many of the same staff who oversee the Section 8 HCV program. Staff from many other areas of the agency were also involved and were required to perform double duty while adapting to working from home. We want to express our gratitude for the commitment and thoroughness demonstrated by everyone involved in COVID RRP.

Please contact Sean Fitzgerald, Audit Coordinator, at (518) 473 – 3112 if you have any questions or require anything further. Thank you.

Sincerely,

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