STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF HOUSING
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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AUDITORS OF PUBLIC ACCOUNTS

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June 7, 2018

AUDITORS' REPORT
DEPARTMENT OF HOUSING
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015

We have audited certain operations of the Department of Housing in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2014 and 2015. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;

2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and

3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;

2. Apparent noncompliance with legal provisions; and

3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Housing.

COMMENTS

FOREWORD

The Department of Housing (DOH) operates principally under the provisions of Title 8, Chapter 127c of the General Statutes. DOH is the lead state agency on all matters relating to housing and is responsible for advancing strategies and administering programs that promote the development, redevelopment, and preservation of housing for low and moderate-income families, community revitalization, as well as financial and other support for the most vulnerable residents.

DOH is a compilation of housing and community development programs and staff from multiple state agencies, including the Department of Economic and Community Development (DECD), the Office of Policy and Management (OPM), the Department of Social Services (DSS), and the Department of Mental Health and Addiction Services (DMHAS). Established under Public Act 13-234 effective July 1, 2013, DOH provides leadership for all aspects of the state's housing policy and planning, and the coordinated implementation of the state's housing agenda.

The department's mission is to foster a Connecticut in which affordable housing is accessible to individuals and families in strong, vibrant, and inclusive communities, and homelessness is a thing of the past.

Evonne M. Klein was appointed commissioner of DOH on February 19, 2013 and served in that capacity throughout the audited period.

Significant Legislation

Notable legislative changes that took effect during the audited period included:

- **Public Act 12-1**, Section 112, of the June 12, 2012 Special Session, effective upon passage, established DOH and made it the lead state agency responsible for all housing matters. The act placed DOH within DECD for administrative purposes only and made it the successor to DECD with respect to housing-related functions, powers, and duties, including community development, redevelopment, and urban renewal.

- **Public Act 13-234**, Sections 1 to 69, 150 and 155, effective July 1, 2013, completed the establishment of DOH by transferring various housing-related responsibilities from DECD, OPM, and DSS to DOH. Under the act, DOH assumed responsibility for programs concerning: (1) affordable housing development and financing, (2) individual and group housing, (3) rent subsidies, (4) eviction and foreclosure prevention, (5) shelter provision and transitional living, and (6) homeownership.

- **Public Act 14-35**, Section 1, effective October 1, 2014, transferred various housing-related powers from DECD to DOH, including the authority to: (1) accept federal and state grants, (2) defer payments due on a loan made by DOH that is, or may become, delinquent, subject to the State Bond Commission's approval, (3) acquire and convey, or place in a DOH program, state-financed housing owned by a legally dissolved developer, (4) operate and accept state and federal funds on behalf of, or to operate, housing projects that the state acquires to preserve its interest under the contract that initially funded it, (5) enter into contracts on housing authorities' behalf, for state-financed projects, (6) provide technical assistance to public housing authorities, (7) collect information on public housing projects, (8) study and develop plans to meet housing needs, (9) study public housing financing options, and (10) adopt regulations to carry out the department's purposes. Section 2 of the act, effective July 1, 2014, authorized DOH to: (1) award grants to nonprofit housing organizations to plan, develop, construct, and manage housing developments and (2) adopt regulations concerning such grants.

- **Public Act 14-45**, effective upon passage, redirected to DOH all Community Investment Account (CIA) funds that the Connecticut Housing Finance Authority (CHFA) received under prior law. By law, CIA is a separate, non-lapsing General Fund account that provides funding for open space, farmland preservation, historic preservation, affordable housing, and promoting agriculture.

- **Public Act 14-217**, Sections 48 to 54 and 258, effective upon passage, returned the administration of the Tax Relief for Elderly Renters program to OPM. Public Act 13-234 had transferred the program from OPM to DOH.

RÉSUMÉ OF OPERATIONS

Introduction

DOH operations for the fiscal years ended June 30, 2014 and 2015 were accounted for in the General Fund, special revenue funds, and other projects funds. The activity of each of the funds during the audited period is presented in the sections that follow:

General Fund

A summary of General Fund receipts during the audited period follows:

Description	Fiscal Year Ended June 30,	
	2014	2015
Energy Conservation Loan Interest	$ 713,246	$ 700,750
Refunds of Expenditures	518,925	813,808
Other Receipts	1,050	-
Total Receipts	**$1,233,221**	**$1,514,558**

Refunds of expenditures consisted primarily of grant refunds.

A summary of General Fund expenditures during the audited period follows:

Description	Fiscal Year Ended June 30,	
	2014	2015
Personal Services	$ 1,849,132	$ 1,870,549
Housing/Homeless Services	53,578,130	61,276,700
Tax Relief for Elderly Renters	21,607,330	-
Congregate Facilities Operating Cost	7,105,908	7,517,398
Assisted Living Demonstration	2,178,000	2,345,000
Elderly Congregate Rent Subsidy	2,167,081	1,732,854
Payments in Lieu of Taxes	1,873,400	1,779,730
Tax Abatement	1,444,646	1,372,414
Elderly Rental Assistance	1,052,360	1,188,638
Other Expenditures	918,964	494,812
Total Expenditures	**$93,774,951**	**$79,578,097**

A majority of the department's General Fund expenditures during the audited period consisted of state aid grants. The decrease in expenditures in the fiscal year ended June 30, 2015 was primarily attributable to the transfer of the Tax Relief for Elderly Renters program back to OPM. The decrease was partially offset by an increase in grant expenditures for Housing/Homeless services programs resulting primarily from a rise in the number of residents housed under the state Rental Assistance Program (RAP).

Special Revenue Funds

In addition to the fund used to account for federal and other restricted monies, DOH utilized other special revenue funds during the audited period. DOH primarily used these funds for providing financial assistance in the form of grants or loans for economic development and housing projects approved by the State Bond Commission.

A summary of special revenue fund receipts during the audited period follows:

Description	Fiscal Year Ended June 30,	
	2014	2015
Federal Contributions	$123,150,797	$143,613,070
Restricted Contributions, Other	880,167	4,635,957
Principal and Interest on Loans	3,453,311	2,630,677
Other Receipts	-	1,096,862
Total Receipts	**$127,484,275**	**$151,976,556**

The increase in receipts in the fiscal year ended June 30, 2015 was primarily attributable to Hurricane Sandy Community Development Block Grant Disaster Recovery (CDBG-DR) funds received by the Department of Housing and Urban Development (HUD), under the Disaster Relief Appropriations Act of 2013 (Pub. L. 113-2), to assist recovery in the most impacted and distressed areas declared a major disaster due to Hurricane Sandy. In addition, restricted contributions increased in the fiscal year ended June 30, 2015 primarily due to Community Investment Account distributions received for the support of affordable housing programs.

A summary of special revenue fund expenditures during the audited period follows:

Program Description	Fiscal Year Ended June 30,	
	2014	2015
Federal Restricted Accounts:		
Section 8 Housing Choice Vouchers	$ 71,522,660	$ 77,700,795
Hurricane Sandy CDBG-DR	4,537,617	43,301,994
Community Development Block Grants	15,352,485	9,960,878
Social Services Block Grant	11,032,823	9,947,588
Home Investment Partnerships	7,591,914	4,337,062
Section 8 Housing Assistance Payments	4,798,966	5,493,379
Emergency Solutions Grants	1,767,662	1,725,307
Housing for Persons with Disabilities	1,426,200	1,398,300
Lead Hazard Reduction Demonstration	-	1,355,788
Other Federal Restricted	353,001	558,185
Total Federal Restricted:	118,383,328	155,779,276

Other Restricted Accounts:		
Community Investment Act	-	1,037,093
Other Restricted	283,750	1,089,199
Total Other Restricted:	283,750	2,126,292
Other Special Revenue Funds:		
Housing Trust Fund	33,207,185	20,857,567
Housing Assistance Fund	26,647,960	17,300,676
Economic Development Fund	3,084,290	2,579,070
STEAP-Grants to Local Governments	521,152	4,762,360
Other Special Revenue Funds	1,363,453	1,201,732
Total Other Special Revenue Funds:	64,824,040	46,701,405
Total Expenditures	**$183,491,118**	**$204,606,973**

Grants and loans comprised over 90% of the special revenue fund expenditures during the audited fiscal years with grants totaling $138,058,501 and $157,628,315, and loans totaling $40,431,202 and $30,955,188, for the fiscal years ended June 30, 2014 and 2015, respectively. The increase in expenditures in the fiscal year ended June 30, 2015 was primarily due to increased activity associated with the Hurricane Sandy CDBG-DR program, including recovery assistance provided for eligible recipients, and architectural, engineering, and construction management costs related to the program. Decreases in assistance provided through the Housing Assistance Fund and the Housing Trust Fund partially offset the increase.

Other Projects Funds

Community Conservation and Development Fund expenditures under the Urban Act Program totaled $4,940,304 and $328,768, for the fiscal years ended June 30, 2014 and 2015, respectively. These funds went to municipalities, non-profit, and for-profit entities to improve and expand state activities that promote community conservation and development and improve the quality of life for urban residents of the state.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

The following reportable matters resulted from our review of the records of the Department of Housing (DOH):

Cash Management

Background: DOH disburses grant funds for housing and community development programs. Assistance agreements between DOH and its grantees require the grantees to submit audit reports to the department. After the department reviews the audit reports and is satisfied with the accuracy of the total grant expenditures, it issues a Certificate of Approved Program Cost and State Funding, which summarizes DOH payments to the grantee for the specific project, total expenditures, adjustments, and the amount due to or from DOH. DOH then bills the grantee for any amounts due.

Our previous audit of the Department of Economic and Community Development (DECD) for the fiscal years ended June 30, 2013 and 2014 reported cash management exceptions. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to perform financial and administrative functions and financial review procedures.

Criteria: Cash management procedures should ensure that DOH bases payments to grantees on immediate needs and receives refunds of overpayments as soon as possible.

Condition: As we noted in our prior DECD audits, DOH needs to improve cash management procedures. During the audited period, DOH issued 204 Certificates of Program Cost and State Funding with amounts due to DOH totaling $1,063,996.

Grantees held unexpended state funds for excessive periods before returning them to DOH. For the 15 projects we reviewed, the delay between the last DOH payment and receipt of a refund was 1 to 2 years for 5 projects, 2 to 3 years for 6 projects, and more than 3 years for 4 projects. The 10 refunds due over 2 years amounted to $413,571.

Effect: DOH grantees received funding in excess of their needs and did not return those funds to DOH in a timely manner.

Cause: During the audited period, DOH and DECD shared the responsibility of identifying and collecting any excess funding from grantees. The departments did not ensure that grantees received only the amounts necessary to meet the needs of the project or that refunds of overpayments were received in a timely manner.

DOH crafted the assistance agreements in a way that allows grantees to hold excess funds until a certificate is issued. The grantee does not have the responsibility for refunding DOH at the end of the budget period or upon project completion.

Recommendation: The Department of Housing should improve its cash management procedures by only disbursing funds for immediate needs and reducing the time to collect refunds of overpayments. DOH should make changes to its assistance agreements to require more timely refunds. (See Recommendation 1.)

Agency Response: "The department agrees with this finding. For the state general fund non-health and human service grant programs, which were those identified in this audit, funds were distributed on a quarterly basis. The grants were supported by quarterly financial statements provided by the grantee, consistent with program eligibility. Adjustments are made in the payment schedule accordingly. As a result, adjustments are generally minimal, with limited or no amount due to the state.

During the audit period, cost certification reviews were performed by DECD. There was a significant backlog due to a large influx of program specific reviews.

Beginning in FY 2016, DOH took over the State Single Audit review process for local housing authorities, along with the program specific review, issuance of these cost certifications and budgetary closeouts. As a result, the significant backlog associated with this process has been eliminated, and closeouts are completed within 90 days of receipt of the applicable audit."

Monitoring of Unused Bond Allocations

Background: DOH finances a variety of housing and community development projects using state bond funds approved by the State Bond Commission. The State Bond Commission requires the return of all unused balances from prior approvals. The funds go to the unallotted balance under the fund and section of origin once a project is completed or cancelled.

Our previous audit of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 reported issues related to the monitoring of unused bond allocations. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to perform financial and administrative functions, and financial review procedures.

Criteria: Written policies and procedures for bond-funded projects should include procedures to monitor unexpended balances from completed or cancelled bond-funded projects.

Condition: In our prior audits of DECD, we found that DECD had not implemented formal policies and procedures to address the administration of unexpended balances on bond-financed projects. Our current review disclosed that this condition has continued for DOH bond-financed projects.

Effect: The lack of formal written procedures for monitoring unexpended bond-fund project balances reduces the department's assurance that grantees return unused bond funds to their original funding source in a timely manner.

Cause: DOH adopted DECD policies and procedures created in May 2014. However, DOH only partially implemented them as of the date of our audit in June 2016.

Recommendation: The Department of Housing should fully implement formal policies and procedures to ensure that it identifies unused balances from prior State Bond Commission approvals in a timely manner and returns them to the unallotted balance under the fund once a project is completed or cancelled. (See Recommendation 2.)

Agency Response: "The department partly agrees with this finding. Formal procedures have been implemented by DECD. Unexpended balances on bond-financed projects are sent to project managers on a regular basis by a supervising accountant. Unused fund balance are identified, unallotted and returned to available reserves when a project is completed or cancelled."

Ineffective Receivables Reconciliation Processes

Background: Each year, DOH reports its June 30th receivable balances to the State Comptroller. Those balances include grant overpayments and Energy Conservation Loan (ECL) receivables serviced by a private contractor.

Our previous audit of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 reported ineffective receivables reconciliation processes. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing to the newly created DOH from DECD. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to perform financial and administrative functions as well as financial review procedures.

Criteria: An adequate system of internal controls should include annual reconciliations of beginning balances, activity, and ending balances. Reconciliations should identify any errors or improper entries made to receivable balances so that entities make corrections and reporting is accurate.

Entities reporting loan receivables administered by third-party loan servicers should ensure that reported amounts reflect loan receivable balances carried by the servicer. Sound user entity internal controls provide for the receipt of a Service Organization Controls 1 (SOC 1) report, prepared in accordance with Statement on Standards for Attestation Engagements No. 16 (SSAE 16) issued by the American Institute of Certified Public Accountants (AICPA). The report's purpose is to ensure the effectiveness of internal controls at service organizations that maintain significant financial applications and processes. SSAE 16 exists to determine whether proper internal controls are in place at private entities providing contracted services.

Condition: Grant Refunds

DOH did not perform reconciliations of grant refund activity and reported receivable balances. DOH reported receivable balances of $103,681 and $370,367 as of June 30, 2014 and 2015, respectively.

ECL Loans

DOH did not perform reconciliations of ECL principal balances to amounts reported monthly by the loan servicer. DOH reported receivable balances of $10,663,410 and $11,201,222 as of June 30, 2014 and 2015, respectively.

Although DOH has received limited review of its loans with the ECL servicer under an agreed-upon-procedures review, DOH did not require that the ECL servicer provide a SOC 1 report.

Effect: DOH may not be properly accounting for or reporting loans administered by a third-party servicer. Financial disclosures on the state's financial statements may be inaccurate.

Cause: DOH apparently did not consider reconciliations of receivables and did not address and resolve unreconciled amounts. DOH receives annual audit reports from the ECL servicer. However, those audit reports do not specifically identify the DOH funding. DOH did not require SOC 1 reports of the loan servicer.

Recommendation: The Department of Housing should perform complete reconciliations of receivable activity and balances before reporting balances to the State Comptroller.

For Energy Conservation Loan balances, DOH should attempt to reconcile the differences between the loan servicer and DOH amounts. DOH should require the loan servicer to provide a Service Organization Controls 1 report prepared pursuant to the Statement on Standards for Attestation Engagements No. 16. (See Recommendation 3.)

Agency Response: "The department agrees with this finding. DECD has reconciled the DOH Grant Receivable balances for FY 2013 through FY 2015. A procedure for annual reconciliation has been initiated.

A staff accountant has begun the extensive work required to reconcile transactions from 2009 through 2017. Reconciliation of this account requires an extensive commitment of time by a qualified accountant. Due to the nature and condition of records used to reconcile the ECL Loans, it is expected that this reconciliation project will be completed by the end of FY 2018.

DOH management is considering the request for SOC1 reports from direct lending partners based on its cost vs. benefits to the agency. This management decision will be considered in FY 2018."

Erroneous Loan Interest Receivable Balances

Background: DOH administers a number of financing assistance programs that promote the development, redevelopment, and preservation of housing for low and moderate-income families. DOH assistance agreements with recipients stipulate the terms and conditions for the assistance, including any interest or penalties that DOH could assess. DOH enters and maintains executed loans in a loan management system, which automatically generates monthly invoices detailing principal and interest amounts.

Each year, DOH reports its June 30th receivable balances to the State Comptroller, which includes loan interest and late fee receivables based on reports from the loan management system. The State Comptroller includes the reported amounts in the state's Comprehensive Annual Financial Report (CAFR).

Our previous audit of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 reported erroneous loan interest receivable balances. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to perform financial and administrative functions as well as financial review procedures.

Criteria: The State Accounting Manual establishes policies and procedures for all state agencies in the management and collection of receivables. Accounts receivable records, including records related to interest and penalties assessed against individuals and organizations, should be accurate, complete, and properly maintained.

Good business practice dictates that agencies should properly accrue and bill borrowers for interest receivable on loans in accordance with agreed-upon contractual arrangements.

Condition: DOH reported receivables for interest and late fees of $3,702,223 and $5,201,950, for the fiscal years ended June 30, 2014 and 2015, respectively. Our testing of the reported receivable balances disclosed understated interest receivable for 10 loans totaling nearly $80,000 and overstated interest receivable for 1 loan over $20,000.

Effect: Interest accruals in the loan management system did not always agree with the amounts billed to recipients and DOH did not always calculate them in accordance with the terms of the assistance agreements, resulting in DOH charging different (generally lower) interest amounts than stipulated in the agreements. As such, interest receivable amounts reported to the State Comptroller were not accurate.

Cause: The understatements were due to the incorrect application of the interest calculation methods in the loan management system and discrepancies with the methodology to calculate and bill interest in the assistance agreements. Further review disclosed that 38 loans, amounting to nearly $40 million, were set up incorrectly in the loan management system.

Recommendation: The Department of Housing should properly calculate loan interest receivables consistent with the amounts billed to recipients, in accordance with financial assistance agreements. (See Recommendation 4.)

Agency Response: "The department agrees with this finding. DECD has undertaken an extensive review of loan setup procedures and initiated the use of loan templates to ensure that interest calculations are correct. Supervisory staff review all loan setups and staff received onsite training from the software vendors. Interest calculations for loans that were set up prior to May 2013 are being reviewed individually and corrected as appropriate. Due to the extensive effort required, DECD expects the review and correction process to be completed during FY 2018."

Inadequate Program Monitoring

Background: Our previous audit of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 reported inadequate monitoring of grants and loans. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to perform financial and administrative functions and financial review procedures.

Criteria: Assistance agreements between DOH and recipients of Small Cities Community Development Block Grants (Small Cities) require municipalities to submit progress and status reports to DOH. According to the department's Small Cities Grant Program Management Manual, the 1st and 3rd quarter reports are due 5 days after the end of the quarter and the 2nd and 4th quarter reports are due 15 days after the end of the quarter. However, DOH allows the municipalities 30 days after the end of each quarter to submit the reports.

The manual also requires DOH to conduct on-site monitoring at least once during the time of a Small Cities grant. Once completed, DOH must send a monitoring letter to the municipality indicating whether the municipality complied with statutory and regulatory requirements. For instances of noncompliance resulting in a finding, the municipality must respond within 30 days of the date of the letter with a corrective action plan. The municipality must implement the plan within 60 days of the letter.

Furthermore, the manual requires DOH to initiate closeout procedures for Small Cities projects when it is determined that all costs to be paid with grant dollars should have been incurred. DOH will issue a certificate of completion if a grantee's audit (in accordance with Single Audit Act requirements) was completed and accepted by DOH, the grantee submitted a final quarterly report, and DOH monitoring of grantee files determined that the grantee has met all laws and regulations.

DOH requires the completion of an eligibility review form to properly assess program eligibility for HOME Investment Partnerships (HOME), Affordable Housing (FLEX), and Housing Trust Fund (HTF) projects.

Assistance agreements between DOH and recipients of HOME, FLEX, and HTF program funding require that borrowers/grantees provide the following to DOH:

- Semi-annual project financing statements within 30 days after June 30^{th} and December 31^{st} until expiration of the development budget;
- Quarterly milestones and progress reports no later than 30 days after the end of each quarter until expiration of the development budget;
- Monthly progress reports no later than 15 days after the end of each calendar month;
- For recipients subject to federal or state single audits, an audit of its accounts annually in accordance with the DOH Audit Guide;
- For non-profit recipients, cost certifications within 60 days of substantial completion of the project or at such times as required by the commissioner; and
- A report, prior to the expiration of the budget period, detailing its good faith efforts to comply with the department's Set-Aside for Minority Business Enterprises policy and listing all small and minority/female-owned businesses to which it awarded contracts, as well as the amount of the contract award.

The department's HOME Compliance Manual requires DOH to conduct on-site program monitoring visits of each owner at least once every 2 years after project completion during the compliance period, and requires that DOH issue a follow-up monitoring letter within 30 days from the date of the visit to inform the owner of the monitoring results. If DOH identifies any concerns, deficiencies, or findings, the owner should take steps to resolve them and respond to the letter within 30 to 60 days.

The department's Internal Process Manual provides that HOME project monitoring must occur after projects are completed. DOH considers projects completed when all funds are expended, construction is completed, and the project is occupied.

Condition: A review of 5 Small Cities project files identified the following deficiencies:

- Quarterly progress reports were missing for 2 projects;

- DECD did not issue monitoring letters and certificates of completion to the municipalities in a timely manner after the project periods ended for 4 projects. For 2 of the projects, the letters and certificates were not issued until after 6 and 13 months after monitoring had been conducted. For the other 2 projects, the letters and certificates were not issued as of the date of our audit, which was 6 to 12 months after the project periods ended and monitoring was conducted; and

- Federal Single Audit reports were not submitted to DOH within 9 months after the end of the fiscal year for 2 projects. In both instances, DOH received the reports 10 months after they were due.

A review of 6 HOME, 5 FLEX, and 5 HTF project files identified the following deficiencies:

- Eligibility review forms were missing for 3 HTF projects;

- Semi-annual project financing statements were missing for 1 HOME, 2 FLEX, and 5 HTF projects;

- Quarterly progress reports were missing or submitted to DOH up to 6 months after they were due for 3 HOME, 4 FLEX, and 5 HTF projects;

- A required monthly progress report was missing for 1 FLEX project;

- Federal Single Audit reports were not submitted to DOH within 9 months after the end of the fiscal year for 1 project. Reports were received up to 17 months after they were due,

- Cost certifications were not submitted to DOH within 60 days of substantial completion for 1 HOME, 3 FLEX, and 5 HTF projects. The certifications were submitted up to 18 months after they were due;

- A report detailing good faith efforts to comply with the department's Set-Aside for Minority Business policy was not submitted to DOH prior to the expiration of the budget period for 1 HOME project. The report was not received for nearly 1 year after it was due; and

- Program monitoring results were not sent to the owner within 30 days of the monitoring visit for 2 HOME projects. DOH did not send the letters until at least 4 months after they were required.

Effect: The department's ability to determine potential project eligibility and to monitor project performance and allowable expenditures is impaired if the proper forms are not completed and obtained in a timely manner.

DOH may make inappropriate payments if it does not review periodic reports when required. The department may not identify excess disbursements and ensure their return in a timely manner.

Cause: Changes in requirements and procedures applicable to the programs, as well as a shift in responsibilities related to program monitoring caused the delays and lack of enforcement of assistance agreement requirements.

Recommendation: The Department of Housing should ensure compliance with assistance agreement requirements and internal control policies and that DOH requests, reviews, and receives specific reports within the stipulated timeframes. (See Recommendation 5.)

Agency Response: "The department agrees with these findings in part. The criteria used in this audit for program monitoring were based on outdated program manuals. The department recognizes that the standards outlined in the program manual need to be updated to reflect the current agency practice in program monitoring based on the resources available and effectiveness of the program monitoring activity.

The department is working to strengthen its internal controls relative to program monitoring by updating various program manuals, as the availability of agency resources permit. The department takes its monitoring and close out responsibilities seriously, and will continue to work with our grantees to ensure that proper reporting is completed in a timely fashion.

Small Cities Community Development Block Grant:

The Office of Policy and Management (OPM) is the agency of cognizance and the responsible entity for the tracking and collection of the State Single Audit for these municipal grantees. As such, the department does not control timely receipt of these documents. Although the department recognizes its role with regard to the review of the State Single Audit with respect to program specific expenditures, these municipal grantees have a historically low percentage of audit findings, if any, and are considered a very low risk. In addition, they are monitored for financial compliance on a regular basis outside of the State Single Audit process. Therefore, tracking receipt and review of the actual State Single Audit is a very low priority for the department.

HOME Investment Partnerships program, the Affordable Housing (FLEX) program, and the Housing Trust Fund program:

The eligibility review form for FLEX applications is now being used to review all housing development applications and has been expanded to include the HOME, FLEX and HTF eligibility. This has eliminated any issues with regard to eligibility for these programs.

The department has revised the semi-annual project financing statement reporting requirements to make submission of these financial statements optional, at the commissioner's discretion. This change in policy, although not reflected in the older assistance agreements tested during this audit period, is the standard procedure that is currently being followed and is contained in the new templates being used for financial assistance. This change is a direct result of the department's efforts to LEAN all of its processes. These new requirements, although not reflected in the original documents, have been implemented as these templates are approved by the Office of the Attorney General, to better reflect current processes and conditions. Many were effective on or before December 1, 2016, and updating and revision of these templates is ongoing. The department has taken and will continue to take prudent steps to operate more effectively and efficiently.

Monthly and quarterly progress reports, although useful, are not always necessary to ensure appropriate progress with regard to these capital activities. DOH will continue to review the criteria applicable to each program, and adjust the need for quarterly or monthly reports, as applicable. DOH will continue to update program manuals and financial assistance agreements as necessary and appropriate to reflect the applicable monitoring practice that would make the most business sense.

These capital funding programs are not subject to a 60 day turnaround on cost certification submissions. Cost certifications for capital projects are subject to stabilized occupancy of the project, which in some cases does not occur for more than a year after initial occupancy. However, the department continues to work closely with its funding partners to ensure that appropriate costs are managed and attributable to the correct funding source in advance of the final cost certification. The financial assistance agreements will continue to be updated as appropriate to reflect current agency practice on cost certifications for capital projects.

DOH acknowledges that a single incident relative to the untimely submission of a Set-Aside for Minority Business report occurred. However, it is important to note that significant effort was made by staff to collect this report during the audit period. Ultimately, the department was not successful in doing so.

The department will continue to work to strengthen its internal controls in an effort to ensure that all reports are collected on a timely basis, including a regular and periodic review of delinquent reports by appropriate supervisors and/or management.

DOH acknowledges that 2 program monitoring letters were not transmitted in a timely fashion. It is important to note that these late monitoring letters reflected positive results, and therefore did not require any corrective action. However, DOH recognizes that notifying the grantees of the results of any monitoring in a timely fashion is good business practice. DOH will work to develop templates for clean monitoring reports (no exceptions or corrective actions needed) to expedite the notification process within 30 days of the site monitoring."

Rental Assistance Program – Incorrect Payment Amounts

Background: The statewide Rental Assistance Program (RAP), administered by DOH and its contracted vendor, is the major state-supported program assisting low-income families in affording decent, safe, and sanitary housing. A family issued a RAP certificate is responsible for finding a suitable housing unit of the family's choice where the owner agrees to rent under the program. Rental units must meet minimum standards of quality and safety. The contracted vendor pays a housing subsidy directly to the landlord on behalf of the participating family. The family pays the difference between the rent charged by the landlord and the amount subsidized by the program.

Criteria: Section 17b-812-6 of the Regulations of Connecticut State Agencies provides that the amount of rental assistance paid by DOH on behalf of eligible families is the difference between the tenant contribution and the rental amount in the lease. The tenant contribution is 10% of the family's monthly income or 40% of the family's monthly adjusted-gross income less a utility allowance, whichever is greater. For elderly and disabled persons, the tenant contribution is 10% of the family's monthly income or 30% of the family's monthly adjusted-gross income less a utility allowance, whichever is greater.

Section 17b-812-9 of the regulations requires DOH or its agent to conduct an annual reexamination of the income and family composition of families participating in RAP, and adjust the amount of each family's assistance payment at the time of the annual reexamination to reflect changes in the family's adjusted gross income.

The state's Administrative Plan for RAP provides that family income includes all monetary amounts received on behalf of the family. For purposes of calculating the tenant contribution, the program counts all income not specifically excluded in annual income. DOH or its contracted vendor must verify information provided by the applicant, including family composition, income, allowances and deductions, assets, full-time student status, eligibility and rent calculation factors, or other pertinent information.

Condition: RAP made 4,538 transactions totaling $3,768,314 during June 2015. A review of 10 transactions totaling $7,752 disclosed the following:

- In 1 case, the miscalculation of tenant contribution, which was based on 40% of adjusted gross income rather than the appropriate 30% rate for disabled persons, resulted in an underpayment of $146 for the tested benefit month. Further review noted underpayments for 12 months totaling $1,752 through the effective reexamination date of January 1, 2016.

- In 1 case, the miscalculation of wages in annual income resulted in an overpayment of $55 for the tested benefit month. Further review noted overpayments for 4 months totaling $220 through the effective interim reexamination date of July 1, 2015.

Effect: There is reduced assurance that DOH and its vendor are calculating RAP payments correctly.

Cause: DOH and its contracted vendor made errors due to clerical mistakes and inadequate oversight.

Recommendation: The Department of Housing and its contracted vendor should ensure that Rental Assistance Program payments are properly calculated and based on amounts supported by third-party verifications. (See Recommendation 6.)

Agency Response: "The department agrees with this finding in part. The mistakes made were due to simple clerical errors which resulted in a 2.6% ($146 + $55/$7,752) error rate. These calculation errors were identified and corrected during FY 2016. Hence, this is not a reflection of weakness in internal controls over the accuracy of RAP payment amounts but a missed item that was caught during the normal review process by the department. The department and its contracted vendor have a detailed quality control process designed to identify and correct these human errors."

Unauthorized Earning of Compensatory Time

Background: Our previous audit of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 reported issues pertaining to unauthorized earning of compensatory time. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing, also including but not limited to, personnel, obligations, records, and property from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to administer and process payroll and time and attendance for DOH. DECD uses A Time Processing System (TPS), which automates the processes for recording and submission of timesheets; reviews and approves requests, including leave time, overtime and compensatory time; reports work distribution information; and transfers approved timekeeping information into the Core-CT accounting system.

Criteria: Collective bargaining agreements permit agency employees to earn compensatory time, with prior supervisory approval, for time worked in excess of their normal work schedule.

DOH policies and procedures require that the office/unit administrator and commissioner authorize compensatory time in advance. Employees must obtain written approval using the appropriate request form at least 24 hours in advance.

Proper internal control dictates that timesheets be approved by the supervisor at the end of each pay period to attest to the hours charged.

Condition: A review of compensatory time earned by 5 employees, consisting of 27 instances totaling nearly 100 hours, disclosed that proper authorization was not obtained in 8 instances totaling 35 hours during the audited period. In addition, in 3 instances, totaling 17.5 hours, compensatory time was not requested and approved in TPS in a timely manner or was inconsistent with the amounts entered into Core-CT.

Effect: Employees earned compensatory time without prior authorization. Furthermore, the lack of a proper approval and recording of compensatory time reduces the assurance that DOH properly compensates employees for their time.

Cause: Administrative controls over the earning and approval of compensatory time were inadequate.

Recommendation: The Department of Housing should ensure that it properly approves compensatory time within the required timeframe. (See Recommendation 7.)

Agency Response: "The department agrees with this finding. Payroll is administered by the SMART unit under an MOU with DOH. The department now complies with and enforces agency policy on use of compensatory time."

Lack of Employee Performance Appraisals

Criteria: The Performance Assessment and Recognition System (PARS) is a program developed by the Department of Administrative Services (DAS) to support additional incentive compensation for managerial and confidential employees who work in agencies that use a prescribed PARS plan. Basic features of the program include developing results-oriented, measurable performance objectives and goals for each manager and confidential employee, regular communication between such employees and their supervisors on meeting goals, performance assessment, and providing a basis for differentiating among performance levels and thus serving as a basis for annual salary increases.

Condition: Our review of the personnel files of 2 DOH managers noted that annual evaluations were not completed for 1 of the managers for the fiscal years ended June 30, 2014 and 2015. Only 1 annual evaluation was completed for the other manager for the fiscal year ended June 30, 2014.

Effect: The absence of written performance evaluations significantly diminishes the commissioner's ability to measure the performance and progress of the department's managerial staff.

Cause: The department has inadequate administrative controls for ensuring the completion of managerial performance evaluations through the Performance Assessment and Recognition System.

Recommendation: The Department of Housing should ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System evaluation forms. (See Recommendation 8.)

Agency Response: "The department agrees with this finding. The department will comply with state requirements on PARS for all managers effective FY 2018."

Obligations Incurred Without Proper Accounting Commitments

Background: Our previous audit report of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 reported exceptions pertaining to accounting commitments. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to perform financial and administrative functions and financial review procedures.

Criteria: Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller.

Proper internal controls related to purchasing require proper authorization of commitment documents prior to the receipt of goods or services.

Condition: In our reviews of 42 expenditure transactions during the audited period, we noted that the department created and/or approved 15 purchase orders after the receipt of goods or services.

Effect: When a department incurs obligations without the proper commitment of funds, there is less assurance that funding will be available at the time of payment.

Cause: DOH informed us that, for grant and loan transactions, program staff approve assistance agreements and payment requests before providing the department's administrative unit with all the information necessary to prepare the purchase orders.

Recommendation: The Department of Housing should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. (See Recommendation 9.)

Agency Response: "The department agrees with the importance of internal controls regarding the commitment of funds prior to purchasing goods and services.

We note that no grant or loan payments were made without properly executed contracts and budget documents. With regard to grant and loan payments, this finding resulted from payment requests being submitted at the same time as other contract documents. A revised procedure, which requires project managers to submit contract documents and receive a purchase order number prior to signing and submitting a payment request, was implemented in 2015.

All staff has been instructed regarding the necessity of obtaining approvals and purchase orders in advance of purchasing goods and services. Payment and other purchase requests without a properly approved purchase order and proper documentation are being reviewed by a fiscal supervisor and brought to the attention of senior management prior to processing."

Lack of Disaster Recovery Plan

Background: Our previous audit report of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 reported the lack of a disaster recovery plan. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties, related to housing from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to provide all information technology (IT) support activities, such as computer hardware and software procurement, upgrades, installation and maintenance, and network services.

Criteria: Sound business practices include provisions that organizations have a current IT disaster recovery plan in place to enable critical operations to resume activity within a reasonable period should a disaster or major interruption in IT systems occur.

Condition: During the audited period, DOH did not have a current comprehensive IT disaster recovery plan in place documenting recovery and testing strategies related to its existing IT infrastructures. In addition, the department has not made provisions for a backup site or computer hardware and software.

Effect: The lack of a current IT disaster recovery plan, including provisions for a backup site and computer equipment, reduces the likelihood of resuming critical operations in a timely manner if a disaster or major IT interruptions should occur.

Cause: Although steps have been taken to improve the department's IT infrastructure, including the development of data recovery strategies and the implementation of testing procedures, a current IT disaster recovery plan has not been developed, nor have all contingency provisions been established.

Recommendation: The Department of Housing should develop a current comprehensive information technology disaster recovery plan that includes the proper coordination and periodic testing of contingency provisions within the plan. (See Recommendation 10.)

Agency Response: "The department disagrees with this finding and notes that substantial efforts have been made in this area. A Disaster Recovery plan was developed and implemented in March 2012 which identified responsibility for critical systems procedures and contingencies in the event of a disaster which incapacitated DECD systems. A full system backup (of production data and system files) to tape is performed on a scheduled basis. Tapes are rotated to a secure off-site location.

DECD implemented 2 high-ended servers with a virtualized environment. Disaster recovery testing was performed in February 2015 and all agency servers tested successfully from back-up tapes.

The department has initiated a move of all applications to the BEST data center during FY 2017. The move to BEST management of servers will provide a cost-effective environment for data protection, testing, and disaster recovery."

Auditors' Concluding Comments: The Auditors of Public Accounts acknowledges the improvements made related to the department's IT infrastructure. However, the March 2012 plan is outdated and incomplete because it did not document the strategy of testing performed during February 2015, the current recovery strategies as of the date of audit testing during February 2016, and provisions for a backup site and equipment to ensure that critical operations resume in a timely manner should such an event occur.

Deficiencies in Reporting and Control of Physical Assets

Background: Our previous audit report of the Department of Economic and Community Development for the fiscal years ended June 30, 2013 and 2014 presented inventory reporting and control weaknesses. Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties, related to housing, also including but not limited to, personnel, obligations, records, and property from DECD to the newly created DOH. Upon the establishment of DOH, the 2 departments entered into a memorandum of understanding regarding the sharing of administrative functions and resources. Under the agreement, DECD continues to perform administrative functions for DOH, including compiling and submitting annual inventory reports; assigning property tags to items; and overseeing the maintenance, repair, and procurement of furniture, furnishings, and equipment.

Criteria: Section 4-36 of the General Statutes requires each state agency to establish and maintain inventory records in the form prescribed by the State Comptroller and to submit an annual report of its inventory balances to the State Comptroller by October 1 each year.

The State Property Control Manual specifies requirements and standards that state agency property control systems must include to ensure that all assets owned by or in the custody of the state are acquired, managed, and disposed of. Capitalized assets must be properly reported on the Asset Management/Inventory Report (CO-59 form), which should reflect the sum total of the physical inventory as of June 30th. Agencies are required to use asset management queries to complete the CO-59 form. If the values recorded on the CO-59 form do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy.

Condition: DOH reported real and personal property on the CO-59 totaling $431,480 and $374,312, for the fiscal years ended June 30, 2014 and 2015, respectively. Our review of the department's CO-59 forms disclosed that amounts reported for both fiscal years were not accurate nor supported by values in Core-CT. Furthermore, we noted that DECD did not transfer $387,658 in real and personal property to DOH until after the conclusion of the audited period.

A physical inspection of 14 assets, 7 selected from a Core-CT Capital Asset Report and 7 selected from a Core-CT Capital Asset Expenditure Report, disclosed 4 items that were in locations other than indicated in Core-CT.

Effect: Deficiencies result in inaccurate and incomplete financial reporting, as well as a decreased ability to properly safeguard assets. The department's property control records did not comply with requirements of the State Property Control Manual.

Cause: The separation of DOH from DECD was the primary cause of not being able to properly maintain the property control system. Furthermore, DOH did not perform a complete physical inspection of all property to ensure that property control records accurately reflect actual inventory on hand.

Recommendation: The Department of Housing should improve internal controls over asset accountability and reporting. DOH should also comply with the requirements of the State Property Control Manual. (See Recommendation 11.)

Agency Response: "The department agrees that all assets should be controlled and adequate records maintained. A physical inventory of DOH assets was performed during FY 2016 and 2017. All department property was transferred from

DECD records. Property values have been accurately reflected on to CO-59 forms."

RECOMMENDATIONS

This is the initial audit of the Department of Housing (DOH). As such, there are no prior audit recommendations requiring follow-up at DOH. However, our prior audit report of the Department of Economic and Community Development contained 9 recommendations for improving housing or other administrative matters related to duties transferred to DOH (formerly part of DECD). Our current audit report presents 11 recommendations.

Status of Prior Audit Recommendations:

- **DOH should improve its cash management procedures by only disbursing funds for immediate needs and reducing the time to collect refunds of overpayments. Rewording of assistance agreements should be considered to require more timely refunds.** This recommendation was not implemented and is being reported for DOH. (See Recommendation 1.)

- **DOH should fully implement formal policies and procedures to ensure that unused balances from prior State Bond Commission approvals are identified in a timely manner and returned to the unallotted balance under the fund once a project is completed or cancelled.** This recommendation was not fully implemented and is being reported for DOH. (See Recommendation 2.)

- **DOH should perform complete reconciliations of receivable activity and balances before reporting balances to the State Comptroller. For Energy Conservation Loan balances, DOH should attempt to reconcile the differences between the loan servicer and DOH amounts. DOH should require a report prepared pursuant to Statement on Standards for Attestation Engagements No. 16.** This recommendation was not implemented and is being reported for DOH. (See Recommendation 3.)

- **DOH should ensure the proper calculation of loan interest receivables and consistency with the amounts billed to recipients in accordance with financial assistance agreements.** This recommendation was not implemented and is being reported for DOH. (See Recommendation 4.)

- **DOH should ensure that overtime and compensatory time is properly approved within the required timeframe.** This recommendation was not implemented related to compensatory time only and is being reported, in part, for DOH. (See Recommendation 7.)

- **DOH should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services.** This recommendation was not implemented and is being reported for DOH. (See Recommendation 9.)

- **DOH should continue its efforts to develop a current comprehensive information technology disaster recovery plan, including the proper coordination and periodic testing of contingency provisions within the plan.** This recommendation was not implemented and is being restated for DOH. (See Recommendation 10.)

- **DOH should improve internal controls over asset accountability and reporting to ensure compliance with the requirements of the State Property Control Manual.** This recommendation was not implemented and is being restated for current conditions noted at DOH. (See Recommendation 11.)

- **DOH should ensure that assistance agreement requirements and internal control policies are followed.** This recommendation was not implemented and is being restated for current conditions noted at DOH. (See Recommendation 5.)

Current Audit Recommendations:

1. **The Department of Housing should improve its cash management procedures by only disbursing funds for immediate needs and reducing the time to collect refunds of overpayments. DOH should make changes to its assistance agreements to require more timely refunds.**

   Comment:

   During the audited period, DOH issued 204 Certificates of Approved Program Cost and State Funding that reflected amounts due to DOH totaling $1,063,996. The length of time that grantees held unexpended state funds appeared to be excessive.

2. **The Department of Housing should fully implement formal policies and procedures to ensure that it identifies unused balances from prior State Bond Commission approvals in a timely manner and returns them to the unallotted balance under the fund once a project is completed or cancelled.**

   Comment:

   During prior audits of DECD, we found that the department had not developed formal policies and procedures to address the administration of unexpended balances on bond-financed projects. Our current review noted that DOH had not fully implemented policies and procedures at the date of our review.

3. **The Department of Housing should perform complete reconciliations of receivable activity and balances before reporting balances to the State Comptroller.**

   For Energy Conservation Loan (ECL) balances, DOH should attempt to reconcile the differences between the loan servicer and DOH amounts. DOH should require the loan servicer to provide a Service Organization Controls 1 report prepared pursuant to the Statement on Standards for Attestation Engagements No. 16 (SSAE16).

   Comment:

   DOH did not perform reconciliations of grant refund activity, reported receivable balances, and ECL principal balances to amounts reported monthly by loan servicers. Furthermore, DECD did not require that the ECL loan servicer provide a report on its controls pursuant to SSAE 16.

4. **The Department of Housing should properly calculate loan interest receivables consistent with the amounts billed to recipients, in accordance with financial assistance agreements.**

   Comment:

   Our review of loan interest receivables noted that interest accruals in the department's loan management system do not always agree with the amounts billed to recipients and the terms of assistance agreements. Furthermore, interest receivable amounts reported to the State Comptroller were not accurate.

5. **The Department of Housing should ensure compliance with assistance agreement requirements and internal control policies and that DOH requests, reviews, and receives specific reports within the stipulated timeframes.**

   Comment:

   Our review of selected Small Cities, HOME, FLEX, and HTF projects identified that grantees did not submit to DOH in a timely manner or were missing eligibility review forms, progress reports, project financing statements, cost certifications, good faith efforts for set-aside minority businesses, and independent audit reports. In addition, we noted instances of the untimely performance of project monitoring and issuance of monitoring results by DOH.

6. **The Department of Housing and its contracted vendor should ensure that Rental Assistance Program payments are properly calculated and based on amounts supported by third-party verifications.**

   Comment:

   A review of 10 RAP transactions noted 2 incorrect payment amounts. In 1 case, the miscalculation of tenant contribution resulted in underpayments for 12 months totaling $1,752. In another case, miscalculated wages included in annual income resulted in overpayments for 12 months totaling $220.

7. **The Department of Housing should ensure that it properly approves compensatory time within the required timeframe.**

   Comment:

   A review of compensatory time disclosed instances in which employees earned compensatory time without prior authorization. We also noted instances in which time was not requested and approved in TPS in a timely manner or was inconsistent with amounts entered into Core-CT.

8. **The Department of Housing should ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System evaluation forms.**

   Comment:

   Our review of the personnel files of 2 managers noted that no annual evaluations had been completed for 1 manager and only 1 annual evaluation had been completed for the other manager for the fiscal years ended June 30, 2014 and 2015.

9. **The Department of Housing should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services.**

   Comment:

   Our review of 42 expenditures identified 15 purchase orders that DOH created and/or approved after the receipt of goods or services.

10. **The Department of Housing should develop a current comprehensive information technology disaster recovery plan that includes the proper coordination and periodic testing of contingency provisions within the plan**.

    Comment:

    The department did not have a current comprehensive information technology disaster recovery plan in place or provisions for a backup site, computer hardware and software.

11. **The Department of Housing should improve internal controls over asset accountability and reporting. DOH should also comply with the requirements of the State Property Control Manual.**

    Comment:

    Our review of the department's CO-59 forms disclosed that amounts reported were not accurate or supported with values reported in Core-CT. Furthermore, we noted that DECD did not appropriately transfer $387,658 in real and personal property belonging to DOH until after the conclusion of the audited period. A physical inspection of 14 assets disclosed 4 items that were in locations other than indicated in Core-CT.

ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Bryne A. Botticelli
Catherine L. Dunne
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Salvatore Marino

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Housing during the course of this examination.

Vincent Filippa
Administrative Auditor

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor