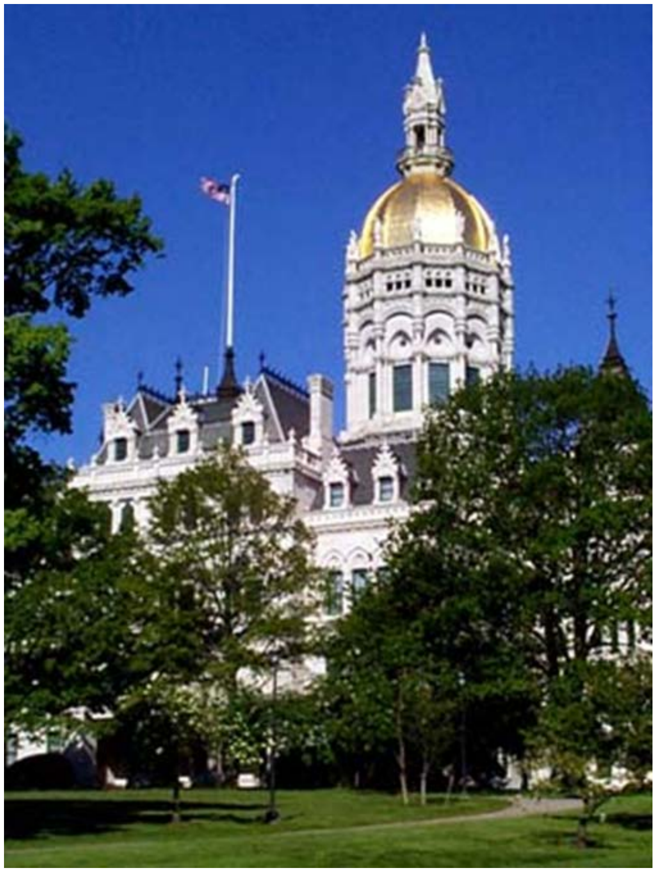
STATE OF CONNECTICUT



AUDITORS' REPORT
DEPARTMENT OF HOUSING
FISCAL YEARS ENDED JUNE 30, 2016 AND 2017

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

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September 24, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Department of Housing. The objectives of this review were to evaluate the department's internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2016 and 2017.

The key findings and recommendations are presented below:

Page 7	We identified missing eligibility review forms and instances in which DOH did not monitor or close out projects for various programs in a timely manner. In addition, DOH spent $4,979,160 prior to receiving delinquent reports required in assistance agreements and spent $330,579 outside of the approved budget periods. DOH should ensure that it performs a complete review of all projects from application until project closeout, and should only disburse funds during approved budget periods. In addition, the department should ensure that recipients follow assistance agreement requirements. (Recommendation 1.)
Page 11	A review of 20 RAP transactions noted that in 3 cases, DOH incorrectly calculated the utility allowances used to determine RAP payments. In one case, DOH did not support the tenant's total annual income with a zero income written statement on file. In 2 cases, there was no documentation available to show whether tenants were referred from a specialty program or properly selected from the waiting list. In another case, DOH did not verify that household members were not registered sex offenders prior to admitting them to the program. DOH and its Rental Assistance Program vendor should ensure that they properly calculate and support payments. In addition, they should document that they are properly selecting tenants from the waiting list and ensure household members are not registered sex offenders. (Recommendation 2.)
Page 13	DECD did not always calculate interest accruals for DOH loans in accordance with the terms of the assistance agreements and mortgage notes. Interest was improperly compounded for 13 loans, which, if not corrected, would have led to DOH receiving over $14 million less in interest over the life of the loans. DOH should work with DECD to ensure that loan interest is calculated and capitalized in accordance with financial assistance agreements. (Recommendation 3.)
Page 15	DOH paid unreasonable and excessive administrative fees to its lending partner to launch and operate the Shoreline Resiliency Loan Fund. DOH provided its lending partner $700,000 for administrative fees. However, as of June 30, 2017, the lending partner has only made 12 loans under the program. As a result, DOH paid $58,333 per loan for administrative fees. DOH should ensure that administrative expenses incurred to operate a program are reasonable. The department should ensure that all program contracts protect it from excessive administrative costs. (Recommendation 4.)
Page 18	DOH allowed grantees to hold unexpended state funds for an excessive period. For 10 projects reviewed, 9 grantees held $148,002 in unexpended state funds for over a year. DOH should improve its cash management procedures by disbursing funds to grantees only for immediate needs and reducing the time to collect refunds of overpayments. (Recommendation 6.)

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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September 24, 2020

AUDITORS' REPORT

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, 2016 and 2017. 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 effectiveness, 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 policies and procedures or 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 state's most vulnerable residents.

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.

Section 8-37r of the General Statutes provides that DOH shall be within the Department of Economic and Community Development (DECD) for administrative purposes. DOH has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs recordkeeping, reporting, and related administrative and clerical functions for DOH.

Evonne M. Klein was appointed commissioner of DOH in February 2013 and served in that capacity until January 2019. Seila Mosquera-Bruno was appointed commissioner in March 2019 and continues to serve in that capacity.

Significant Legislation

The following notable legislative changes affecting the department took effect during the audited period:

- **Public Act 15-153**, effective October 1, 2015, established a residence mobility counseling program to assist individuals or families in relocating to higher opportunity areas through education and support services.

- **Public Act 15-1 of the June Special Session,** Section 57, effective July 1, 2015, created a homelessness prevention and response fund to provide forgivable loans or grants for landlords to renovate multifamily homes in exchange for their participation in the Rapid Re-Housing program or for the abatement of rent by a landlord for scattered site supportive housing units. The Rapid Re-Housing program is a statewide initiative designed to assist homeless participants as they quickly move out of homelessness into permanent housing through the provision of time-limited assistance with the ultimate goal of housing stability.

- **Public Act 16-65**, Section 63, effective October 1, 2016, provided that the Commissioner of Housing shall establish, within available appropriations, a pilot program for eligible local housing authorities to implement a program that uses rental payments as a mechanism for credit building.

RÉSUMÉ OF OPERATIONS

The Department of Housing accounted for its operations for the fiscal years ended June 30, 2016 and 2017 in the General Fund and special revenue funds. Each fund's activity is presented in the sections that follow:

General Fund

A summary of General Fund receipts during the audited period and the preceding fiscal year follows:

Receipt Description	Fiscal Year Ended June 30,		
	2015	2016	2017
Utility Subsidy Income	$700,750	$681,019	$739,251
Refunds of Expenditures	813,808	1,123,538	209,329
All Other	-	100	250
Total Receipts	**$1,514,558**	**$1,804,657**	**$948,830**

Utility subsidy income consists of funds received by utility companies to help subsidize the state's cost of administering the Energy Conservation Loan Program. Refunds of expenditures consist primarily of grant refunds. When a grant recipient does not spend all funds received for a project, they must return excess funds to the state.

A summary of General Fund expenditures during the audited period and the preceding fiscal year follows:

Expenditure Description	Fiscal Year Ended June 30,		
	2015	2016	2017
Personal Services	$1,870,549	$2,002,589	$1,744,884
Housing/Homeless Services	61,276,701	65,722,924	66,607,617
Congregate Facilities Operating Cost	7,517,398	7,681,166	7,285,736
Assisted Living Demonstration	2,345,000	2,251,114	2,159,241
Elderly Congregate Rent Subsidy	1,732,854	2,043,242	1,982,065
Payments in Lieu of Taxes	1,779,730	-	-
Tax Abatement	1,372,414	-	-
Elderly Rental Assistance	1,188,638	1,107,398	1,035,430
Other Expenditures	494,812	555,917	192,321
Total Expenditures	**$79,578,096**	**$81,364,350**	**$81,007,294**

General Fund expenditures increased by $1,786,254 during the fiscal year ended June 30, 2016 and decreased by $357,056 during the fiscal year ended June 30, 2017. A majority of the department's General Fund expenditures consist of state aid grants for housing and homeless services. The increase in expenditures during the fiscal year ended June 30, 2016 was primarily attributable to additional funding for the Rental Assistance Program (RAP). RAP is the major state-funded program for assisting very-low-income families to afford decent, safe, and sanitary housing in the private market. Funding for the tax abatement and payments in lieu of taxes programs were eliminated during the fiscal year ended June 30, 2016.

Special Revenue Funds

In addition to the fund used to account for federal and other restricted monies, DOH utilized 8 other special revenue funds during the audited period. DOH primarily used these funds to provide financial assistance in the form of grants or loans for housing projects approved by the State Bond Commission.

A summary of receipts from special revenue funds during the audited period and the preceding fiscal year follows:

Receipt Description	Fiscal Year Ended June 30,		
	2015	2016	2017
Federal Contributions	$143,613,070	$187,130,846	$169,264,385
Restricted Contributions, Other	4,635,957	6,267,328	8,081,292
Principal and Interest on Loans	2,630,677	10,036,655	4,452,047
Other Receipts	1,096,862	13,962	-
Total Receipts	**$151,976,566**	**$203,448,791**	**$181,797,724**

Total receipts from special revenue funds increased by $51,472,225 during the fiscal year ended June 30, 2016 and decreased by $21,651,067 during the fiscal year ended June 30, 2017. The changes were primarily attributable to fluctuations in federal contributions. Expenditures for the temporary Hurricane Sandy Community Development Block Grant Disaster Recovery Program (CDBG-DR) increased significantly during the fiscal years ended June 30, 2016 and

2017. CDBG-DR provides assistance to the most impacted and distressed areas due to Hurricane Sandy. DOH has until September 30, 2022 to expend these program funds.

The increase in principal and interest on loans during the fiscal year ended June 30, 2016 was primarily attributable to a $6.5 million return of grant funds, and the increase in restricted contributions was mainly due to an increase in the number of families served under the Family Unification Program. The Family Unification Program is a collaboration between DOH and the Department of Children and Families designed to reduce the number of children in foster care by providing affordable housing through a rental subsidy.

A summary of expenditures from special revenue funds during the audited period and the preceding fiscal year follows:

Program Description	**Fiscal Year Ended June 30,**		
	2015	**2016**	**2017**
Federal Restricted Accounts:			
Section 8 Housing Choice Vouchers	$77,700,795	$81,638,791	$85,854,266
Hurricane Sandy CDBG-DR	14,775,954	33,249,096	36,327,964
Community Development Block Grants	9,960,879	12,736,657	14,897,396
Social Services Block Grant	9,947,589	11,875,914	11,198,930
Home Investment Partnerships	4,337,062	10,379,668	7,193,061
Section 8 Housing Assistance Payments	5,493,379	5,488,758	5,314,013
Emergency Solutions Grants	1,725,307	2,164,855	2,178,937
Housing for Persons with Disabilities	1,398,300	1,489,519	1,485,748
Lead Hazard Reduction Demonstration	1,355,788	1,630,327	911,357
Other Federal Restricted	558,185	768,523	1,402,665
Total Federal Restricted:	127,253,238	161,422,108	166,764,337
Other Restricted Accounts:			
Community Investment Act	1,037,093	5,204,514	1,586,055
DOH Supportive Housing	-	2,839,153	5,950,000
Other Restricted	1,089,199	1,360,500	1,274,597
Total Other Restricted:	2,126,292	9,404,167	8,810,652
Other Special Revenue Funds:			
Housing Trust Fund	20,857,567	36,440,995	29,450,388
Housing Assistance Fund	17,300,676	44,171,353	57,665,530
Economic Development Fund	2,579,070	2,543,865	2,471,109
STEAP-Grants to Local Governments	4,762,359	3,615,101	784,244
Other Special Revenue Funds	1,201,732	2,753,676	2,595,182
Total Other Special Revenue Funds:	46,701,404	89,524,990	92,966,453
Total Expenditures	**$176,080,934**	**$260,351,265**	**$268,541,442**

Total expenditures from special revenue funds increased by $84,270,331 and $8,190,177 during the fiscal years ended June 30, 2016 and 2017, respectively. Grants and loans comprise approximately 95% of expenditures from special revenue funds. A significant portion of the variance noted was attributable to increases in Housing Trust Fund and Housing Assistance Fund expenditures. DOH administers a number of financial assistance programs to create affordable housing for low and moderate-income families. Fluctuations in expenditures are primarily due to the timing of these construction or rehabilitation projects. In addition, expenditures for the temporary Hurricane Sandy Program increased significantly during the fiscal years ended June 30, 2016 and 2017.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Housing disclosed the following 14 findings and recommendations, of which 9 have been repeated from the previous audit:

Inadequate Program Monitoring

Background: The Department of Housing administers a variety of housing and community development programs, including the Small Cities Community Development Block Grant (Small Cities), Home Investment Partnerships (HOME), Affordable Housing (FLEX), and Housing Trust Fund (HTF) programs.

DOH has a memorandum of understanding with the Department of Economic and Community Development (DECD) regarding the sharing of administrative functions and resources. Under the agreement, DECD performs financial and administrative functions for DOH, including performing some aspects of monitoring the housing and community development programs.

Criteria: DOH requires the completion of an eligibility review form to assess program eligibility for HOME, FLEX, and HTF projects.

The DOH assistance agreements stipulate that recipients use funds in accordance with the approved budgets and project timetables. The department has the right, upon request by the recipient, to modify the development budget and extend the end date.

Assistance agreements between DOH and recipients require that borrowers/grantees provide the following to DOH:

- Quarterly project milestones and progress reports no later than 30 days after the end of each quarter until the expiration of the development budget

- For recipients subject to federal or state single audits, an audit of their accounts annually in accordance with the DOH Audit Guide

- For all for-profit recipients, cost certifications within 60 days of substantial completion of the projects or at such times as required by the commissioner

- 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/femaleowned businesses to which it awarded contracts, as well as the amount of the contract award

Title 24 Code of Federal Regulations 92.504 provides that on-site inspections for HOME funded projects must occur within 12 months of a project's completion and at least once every 3 years thereafter during the period of affordability.

The department's HOME Compliance Manual requires DOH to issue a follow-up monitoring letter within 30 days from the date of the site 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 Small Cities Grant Program Management Manual 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 it 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 funds should have been incurred. DOH issues 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 met all laws and regulations.

Condition: We reviewed 5 Small Cities, one HOME, 6 FLEX, and 3 HTF project files, for which DOH provided $44,223,375 during the fiscal years ended June 30, 2016 and 2017. In addition, we reviewed the project closeouts performed on 5 Small Cities, 2 HOME, and one HTF project selected during the prior audit. Our review identified the following deficiencies:

- DOH was missing eligibility review forms for one HOME, 5 FLEX, and 2 HTF projects.
- DOH made payments outside the approved budget periods for 2 FLEX projects.
- Quarterly project milestones and progress reports were missing, incomplete, or submitted to DOH up to 2 years late for one HOME, 3

FLEX, and 3 HTF projects. DOH made payments for 2 FLEX and one HTF project prior to receiving the delinquent reports.

- DOH did not review single audits for 4 Small Cities projects until 13 to 18 months after the audits were due.

- DOH did not obtain reports detailing the good-faith efforts to comply with the department's Set-Aside for Minority Business policy prior to the expiration of the budget period for the one HOME, 6 FLEX, and 3 HTF project files reviewed for the current audited period.

- DOH did not conduct on-site monitoring in a timely manner for 2 Small Cities and one HOME project. DOH conducted monitoring between 5 and 15 months late.

- DOH did not issue monitoring letters and certificates of completion after conducting monitoring for 4 Small Cities projects. At the time of our review, between 19 and 23 months had passed since the department conducted its on-site monitoring.

- DOH did not send program-monitoring results to the owner within 30 days of the monitoring visit for one HOME project. DOH sent the letter 2 months late.

- DOH issued a monitoring letter with findings 10 months after conducting on-site monitoring for one Small Cities project. The municipality responded within 60 days, but DOH sent a follow-up letter a month later and had not received a final response 14 months later. As a result, DOH had not issued a certificate of completion 27 months after it conducted its on-site monitoring.

- DOH did not close out the projects in a timely manner for 3 HOME, 6 FLEX, and 4 HTF projects.

    - The recipient did not submit the documentation necessary for DOH to close out the project for one FLEX project. At the time of our review, more than 3 years had passed since the budget period expired.

    - It took DOH between 1 and 3 years to close out the projects after the required closeout documentation was available for 2 HOME, one FLEX, and 2 HTF projects.

    - DOH had not closed out the project at the time of our review despite the required closeout documentation being available for 1 to 3.5 years for one HOME, 4 FLEX, and 2 HTF projects.

Context: DOH paid $25,089,047 for Small Cities projects, $13,863,985 for HOME projects, $105,556,775 for FLEX projects, and $65,891,383 for HTF projects during the fiscal years ended June 30, 2016 and 2017.

Effect: The department's ability to determine potential project eligibility and 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 prompt return. DOH spent $4,979,160 prior to receiving the delinquent reports stipulated in the assistance agreements.

In addition, DOH spent $330,579 outside of the approved budget periods.

Cause: Administrative controls over the projects were inadequate. Delays were due to staffing constraints and task priorities. DECD staff perform some components of program monitoring. The coordination of tasks between the agencies contributed to the delays.

One assistance agreement did not specify the documents required for project closeout or stipulate their submission deadlines.

Prior Audit Finding: This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in 2 DECD audit reports dating back to the fiscal year ended June 30, 2011.

Recommendation: The Department of Housing should ensure that it performs a complete review of all projects from application until project closeout, and should only disburse funds during approved budget periods. In addition, the department should ensure that recipients follow assistance agreement requirements. (See Recommendation 1.)

Agency Response: "DOH agrees with this audit finding. The majority of this monitoring control breakdown is due to significant staff turnover, and a delay in replacement for both DOH and DECD staffs. DOH has added staff, which now provides for peer/quality control review and procedure modifications, as well as, staff training. The gap in the use of the eligibility review forms has been corrected by including the HOME, FLEX and HTF eligibility requirements. In addition, DOH management/supervisors will review payment requests to ensure that they are appropriately created after the service dates and are within the approved budget period. Supervisors will enforce the collection of the required milestones and progress reports.

State Single Audit reviews are performed by the Office of Financial Review and Compliance within DECD. The delay of the review could be mitigated by other sources of monitoring report or activity report from the capital project itself through site visits and collaborative work with funding partners. DECD staffs responsible for this review of the State Single Audits were also understaff during the audit period. However, DOH relies on Office of Policy Management (OPM) review of the State Single Audits for identifying relevant issues for the agency. DOH would promptly follow up on these identified issues as appropriate.

DOH continues to take monitoring and close out responsibilities seriously. Additional staff assignments are underway which would facilitate a more timely on-site monitoring and completion of the closeout activity. DOH management will continue to encourage staff to make every effort to schedule the required on-site visits and its reporting timely. In the case of one FLEX project where the recipient did not submit the close-out documentation, there are other mitigating factors that could delay the availability of these documents such as processing a financing gap adjustment."

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 quality and safety standards. The vendor pays a housing subsidy directly to the landlord on behalf of the participating family.

DOH and its vendor are considered the housing authority for 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.

The DOH administrative plan for RAP provides the following:

- The housing authority must verify factors of eligibility and tenant contribution. Whenever possible, the housing authority will use written verification from independent sources.

- Families who report no income are required to sign a zero income written statement every 180 days.

- The housing authority uses a waiting list for admission to the program and must ensure that families are placed on the waiting list in the proper order. The housing authority selects applicants from the waiting list in accordance with policies in the administrative plan with the exception of referral based specialty programs.

State Regulation Sec. 17b-812-13 provides that the department or its agent may deny or terminate assistance to a participant if a household member is subject to a state or federal sex offender registration program. The administrative plan provides that in screening applicants, the housing authority will perform criminal history background checks to determine whether any household member is subject to a sex offender registration requirement.

Condition: Our review of 20 RAP payments, totaling $18,521, disclosed the following.

- In 3 cases, DOH incorrectly calculated the utility allowances used to determine RAP payments. Two of these errors resulted in RAP underpayments totaling $22 for the sampled month. There was no financial impact for the third error. Further review noted additional RAP underpayments totaling $242 through the tenants' reexamination dates.

- In one case in which the tenant reported zero income, DOH did not support the tenant's total annual income with a zero income written statement on file.

- In 2 cases, there was no documentation available to show whether tenants were referred from a specialty program or properly selected from the waiting list. As a result, we could not determine that the tenants were properly admitted into the program.

- In one case, DOH did not verify that household members were not registered sex offenders prior to admitting them to the program. The department did not verify this information until the tenant's annual redetermination.

Context: During the fiscal years ended June 30, 2016 and 2017, DOH paid $113,277,655 for RAP assistance.

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

Cause: The errors were due to clerical mistakes and oversights by DOH and its vendor.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2014 and 2015.

Recommendation: The Department of Housing and its Rental Assistance Program vendor should ensure that they properly calculate and support payments. In addition, they should document that they are properly selecting tenants from the waiting list and ensure household members are not registered sex offenders. (See Recommendation 2.)

Agency Response: "DOH partially agrees with this audit finding. The RAP miscalculations were due to clerical errors and were corrected during the normal quality review process in place in FYE 2017. The missing documentation for the tenant's total annual income was misfiled. The necessary supporting documentation has been obtained/located and appropriately filed. The department and its contracted vendor have a detailed quality control process designed to identify and correct these errors. To address these audit findings, the quality review shall include a supervisory review to ensure household eligible members are properly selected and its selection review is documented in the project files. Agency internal controls are in place to identify missed information including the documentation for review of sex offenders prior to admittance to the DOH program. The missing documentation was an isolated incident which was identified and corrected in the next regular recertification process."

Incorrect Interest Calculations

Background: The Department of Housing has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs financial and administrative functions for DOH.

DOH administers a number of financial assistance programs that promote the development, redevelopment, and preservation of housing for low and moderate-income families. DOH assistance agreements and mortgage notes with recipients stipulate the terms and conditions of the assistance, including the rate and method for calculating interest. DECD enters loans executed by DOH into its loan management system, which automatically generates invoices detailing principal and interest amounts due.

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

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

Good business practice dictates that agencies accrue and bill interest to borrowers properly and in accordance with agreed-upon contractual arrangements.

Condition: Our review of receivables disclosed the following:

- DECD did not properly compound interest for 13 DOH loans, which, if not corrected, would have led to DOH receiving over $14 million less in interest over the life of the loans.

- We reviewed 10 reported receivables and noted that DECD incorrectly calculated the interest capitalized for 4 DOH loans during the tested fiscal year. As a result, DOH understated interest receivable for one loan by $656 and overstated interest receivables for 3 loans by $161,412.

- During our review of 7 Home Investment Partnerships, Affordable Housing, and Housing Trust Fund projects, we noted that $38,247 of interest for one project was not properly accrued.

- During our previous audit, we noted that 38 loans were set up in the loan management system using an incorrect interest calculation method. We reviewed these loans and, as of May 17, 2018, determined that 12 loans totaling $36 million were still incorrect.

Context: DOH reported receivables for interest and late fees of $7,124,103 and $9,790,247, for the fiscal years ended June 30, 2016 and 2017, respectively.

Effect: DECD did not always calculate interest accruals for DOH loans in accordance with the terms of the assistance agreements and mortgage notes. As a result, DOH may not receive the proper amount of interest payments from loan recipients. In addition, DOH reported inaccurate interest receivable amounts to the State Comptroller.

Cause: DECD incorrectly set up the interest calculation terms in the loan management system.

Prior Audit Finding: This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in the DECD audit report covering the fiscal year ended June 30, 2013.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to ensure that loan interest is calculated and capitalized in accordance with financial assistance agreements. (See Recommendation 3.)

Agency Response: "DOH agrees with this finding, the identified loans have been corrected as of FYE 2019. In FY 17-18 DECD implemented a loan checklist and supervisory review process in which summarizes interest calculation terms in accordance with financial assistance agreements. In addition, staff has received training."

Unreasonable Administrative Fees Paid to Lending Partner

Background: The Department of Housing established the Shoreline Resiliency Loan Fund to provide low-interest loans to qualified homeowners and businesses interested in protecting their properties and making them more resilient in the face of future storms.

Effective in June 2014, DOH entered into an agreement with a lending partner to administer and service the program's loans.

Criteria: Good business practice provides that agencies should minimize the administrative expenses to operate a program.

Condition: DOH provided its lending partner $700,000 for administrative fees to launch and operate the Shoreline Resiliency Loan Fund Program. However, the lending partner only made 12 loans totaling $2,026,900 under the program. As a result, DOH paid $58,333 per loan for administrative fees.

Context: The Shoreline lending partner only provided 12 loans totaling $2,026,900. The Shoreline Resiliency Loan Fund Program ended due to a lack of demand. It did not provide any additional loans.

Effect: DOH paid unreasonable and excessive administrative fees to its lending partner to launch and operate the Shoreline Resiliency Loan Fund. In addition to the administrative fees, the lending partner retained approximately $18,000 of loan interest and received $20,269 from a 1% origination fee from borrowers.

Cause: DOH overestimated the demand for shoreline loans. DOH originally estimated that the lending partner would finance approximately 204 loans.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Housing should ensure that administrative expenses to establish and operate its programs are reasonable. The department should ensure that all program contracts protect it from excessive administrative costs. (See Recommendation 4.)

Agency Response: "DOH partially agrees with this audit finding. DOH conducted an extensive and statutorily compliant procurement in the selection of the administrator for this new program. The majority of the administrative costs are fixed startup costs associated with the launching of this new program. The initial projected number of borrowers in this program was significantly higher than actual. The total administrative costs associated with this program however, were in line with the proposed initial budget and, as such, were reasonable, based on the original projected number of loans to be serviced by this lending partner."

Auditors' Concluding Comments The department should have exercised its due diligence and sufficiently gauged demand for the program prior to funding the lending partner.

Lack of Monitoring of Lending Partners

Background: The Department of Housing established the Shoreline Resiliency Loan Fund to provide low-interest loans to qualified homeowners and businesses interested in protecting their properties, and making them more resilient in the face of future storms.

DOH established the Energy Conservation Loan Program (ECL) to provide financing at below market rates to single and multi-family residential property owners, assisting both owner-occupants and investor-owners, to purchase and install cost-saving energy conservation improvements.

DOH entered into agreements with lending partners to administer and service the loans provided under the Shoreline Resiliency Loan Fund and Energy Conservation Loan programs.

Criteria: Adequate internal controls would include properly monitoring that service providers are using state funds for the intended purpose and ensuring that they are accurately distributing funds. One mechanism to accomplish this would be requiring all service organizations to obtain a Service Organization Controls 1 Report (SOC 1). A SOC 1 is a report on the controls at a service organization relevant to a user entity's internal controls over financial reporting.

The DOH agreements with its lending partners require them to submit annual financial audits, including single audits, if applicable. In addition, the lending partners are required to submit monthly activity reports.

Condition: DOH did not establish adequate procedures to monitor the lending partners that administer and service financial assistance provided under the Shoreline Resiliency Loan Fund and Energy Conservation Loan programs.

- DOH did not review the lending partners' controls over financial applications and processes. In addition, DOH did not require lending partners to obtain SOC 1 reports and provide them to the department.
- DOH did not obtain or review the lending partners' independent audit reports. In addition, our review of the audit report for the Shoreline Resiliency Loan Fund lending partner for the fiscal year ended June 30, 2016, disclosed a finding pertaining to the maintenance of loan files. DOH did not follow up with the lending partner on this issue.
- Activity reports provided by the Shoreline lending partner did not include all the elements required by the agreement.

Context: As of June 30, 2017, there were 12 outstanding shoreline loans, totaling $1,726,584, and 1,667 outstanding energy conservation loans, totaling $10,263,648.

Effect: By not adequately monitoring its lending partners, DOH has limited assurance that funds were used for their intended purposes and that the lending partners' controls are properly designed and operating effectively.

Cause: DOH has not implemented procedures to adequately monitor the lending partners or require that they obtain SOC 1 reports.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Housing should establish and implement procedures to monitor the activities of its lending partners that administer and service financial assistance provided under the Shoreline Resiliency Loan Fund and Energy Conservation Loan Fund programs. (See Recommendation 5.)

Agency Response: "DOH agrees with the fact of this audit finding. DOH has evaluated the annual cost of this internal control report (SOC-1). DOH management deemed that the additional cost to obtain the SOC-1 is not cost-effective relative to servicing these two loan funds. To mitigate this internal control weakness, DOH regularly reviews the monthly financial activity supported by annual audited financials; as well as periodic processing of subordinations, releases, and other legal transactions, backed up with adequate third party documentation. These independent reports increase the agency's confidence in monitoring the proper management of these funds.

DECD's Office of Financial Review (OFR) is responsible for obtaining and reviewing the independent audit reports for the lending partners. During the audit period, DECD lacked the resources to perform this work. DECD has hired additional staff and is now current with its review. The issues noted in the financial audit of Shoreline were missed due to lack of resources in the Office of Financial Review and Compliance during this audit period. Subsequent to this audit, OFR is now current with their financial reviews of the audited financial statements."

Auditors' Concluding Comments

DOH's monitoring procedures do not include a review of the lending partners' controls over financial applications and processes, and would not be sufficient to determine whether funds were used for their intended purposes or that the lending partners' controls are properly designed and operating effectively.

Cash Management

Background:

The Department of Housing 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.

DOH has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs financial and administrative functions for DOH. During the audited period, DOH and DECD shared the responsibility of identifying and collecting excess funding from DOH grantees.

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:

DOH allowed grantees to hold unexpended state funds for an excessive period. For the 10 projects reviewed, nine took over a year from the end of the project's budget period to the DOH issuance of the Certificate of

Program Cost and State Funding (4 of which were over 3 years). This resulted in the grantees holding $148,002 in unexpended state funds.

Context: DOH issued 222 Certificates of Approved Program Cost and State Funding during the fiscal years ended June 30, 2016 and 2017. Grantees owed DOH $423,315 from 53 projects.

Effect: Grantees received funding in excess of their needs and did not promptly return excess funds to DOH.

Cause: DOH did not ensure that grantees only received the funds necessary to meet the needs of the project, and that they promptly refunded overpayments.

In addition, not all assistance agreements require grantees to refund unexpended funds at the end of the budget period or upon project completion. Some assistance agreements allow grantees to hold excess funds until the department issues a Certificate of Approved Program Cost and State Funding.

Prior Audit Finding: This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in 3 DECD audit reports dating back to the fiscal year ended June 30, 2009.

Recommendation: The Department of Housing should improve its cash management procedures by only disbursing funds to grantees for immediate needs and ensuring that grantees promptly refund any overpayments. DOH should change its assistance agreements to require more timely refunds of unexpended state funds. (See Recommendation 6.)

Agency Response: “DOH agrees with this audit finding. DOH and DECD have worked on improving this process. Reviews of financial audits and Certificates of Approved Program Costs are issued in a timely manner. As of FY 18 Grantees are now billed in the Core financial system reducing time in the collection of payments.”

Monitoring of Unused Bond Allocations

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

DOH has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs financial and administrative functions for DOH.

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

Condition: DOH did not track allocations for the Affordable Housing Program during the audited period. Additionally, DOH's tracking spreadsheet for the Housing Trust Fund Program contained errors and did not identify all completed or cancelled projects.

Context: DOH expended $171 million under the Affordable Housing and Housing Trust Fund programs during the fiscal years ended June 30, 2016 and 2017.

Effect: DOH has reduced assurance that unused bond funds are returned to their original funding source in a timely manner. Leaving balances allotted to completed or cancelled projects inaccurately reflects the financial position of those funds and does not enable their use for other purposes.

Cause: DECD tracks the amount of unused bond allocations for DOH. However, DECD neglected to track the bond allocations for the Affordable Housing Program. Clerical mistakes and inadequate oversight caused the errors noted in the department's tracking spreadsheets.

Prior Audit Finding: This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in 5 DECD audit reports dating back to the fiscal year ended June 30, 2005.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to track unexpended balances from completed or cancelled bond-funded projects. (See Recommendation 7.)

Agency Response: "DOH agrees with this audit finding, DECD has implemented a reporting process to strengthen the tracking of bond fund balances for the Affordable Housing program and Housing Trust Fund program. DECD is working with DOH to identify complete or cancelled bond-funded projects and to return unused funds."

Improper Loan Setup

Background: The Department of Housing has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources.

Under the agreement, DECD performs financial and administrative functions for DOH.

DOH administers a number of financial assistance programs that promote the development, redevelopment, and preservation of housing for low and moderate-income families. DOH assistance agreements and mortgage notes with recipients stipulate the terms and conditions of the assistance. DECD enters loans executed by DOH into its loan management system, which automatically generates invoices detailing principal and interest amounts due.

Criteria: The State Accounting Manual establishes receivable management policies and procedures for all state agencies. Accounts receivable records, including loans receivable, should be accurate, complete, and maintained in a manner to indicate how long the debt has been outstanding.

Good business practice dictates that agencies record loans receivable and invoice borrowers in a timely manner in accordance with agreed-upon contractual arrangements.

Condition: DECD did not input advances into the loan management system in a timely manner for 4 of the 10 Home Investment Partnerships, Affordable Housing, and Housing Trust Fund projects reviewed. We noted 11 DOH loan advances that DECD did not input into the system until 1 to 5 months after payments were made.

In addition, DECD double entered 2 Home Investment Partnerships loans, totaling $3,339,519, in the loan management system.

Context: DOH made loan advances to 5 Home Investment Partnerships, 32 Affordable Housing, and 19 Housing Trust Fund projects during the fiscal years ended June 30, 2016 and 2017.

DOH reported $122,844,729 in loan receivables for the Home Investment Partnerships Program as of June 30, 2017.

Effect: The department's ability to track and invoice for loans is impaired if it does not input advances in its loan system in a timely manner. In addition, there is reduced assurance that DECD properly recorded all DOH loans receivable.

Cause: DECD did not promptly input DOH loan advances into its loan system.

DECD identified DOH loans that were set up in the loan management system using an incorrect interest calculation method. DECD created new loans using the correct interest calculation method, but failed to close the original loans.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to ensure that receivable balances are accurate and loan advances are promptly entered into the loan management system. (See Recommendation 8.)

Agency Response: "DOH agrees with this finding and corrected loan set-ups. In FY 17-18 DECD implemented a reconciliation process in which loan advances are reconciled to the loans management system on a monthly basis. This procedure will include a supervisory review and reduce loan setup time."

Erroneous Loan Receivable Balances

Background: The Department of Housing has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs financial and administrative functions for DOH.

DOH administers a number of financial assistance programs that promote the development, redevelopment, and preservation of housing for low and moderate-income families. DOH assistance agreements and mortgage notes with recipients stipulate the terms and conditions of the assistance, including the rate and method for calculating interest. DECD enters loans executed by DOH into its loan management system, which automatically generates invoices detailing principal and interest amounts due.

Criteria: The State Accounting Manual establishes policies and procedures for all state agencies in the management and collection of receivables. Accounts receivable records, including loans receivable, should be accurate, complete, and maintained in a manner to indicate how long the debt has been outstanding.

The Office of the State Comptroller requires all state agencies to report accurate accounts receivable balances as of June 30th, including the amount of receivables estimated to be uncollectible. The State Comptroller includes reported amounts in the state's Comprehensive Annual Financial Report. DECD prepares and submits accounts receivable balances for DOH.

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 lending partners should ensure that reported amounts reflect loan receivable balances carried by the servicer.

Condition: Our review of DOH receivable balances disclosed the following:

- DECD understated DOH loan receivables reported to the Office of the State Comptroller by $9,254,918 and $1,799,430 for the fiscal years ended June 30, 2016 and 2017, respectively. In addition, DECD understated the amount of uncollectible receivables by $191,882 for the fiscal year ended June 30, 2016.

- DECD did not prepare a reconciliation of receivable balances for the DOH Energy Conservation Loan Program to amounts reported by the lending partner. The DECD loan management system presented a receivable balance of $12,015,482 as of June 30, 2017. However, the lending partner reported a receivable balance of $10,263,648, a difference of $1,751,834.

- DECD did not prepare a reconciliation of receivable balances for the DOH Shoreline Resiliency Loan Fund to the amounts reported by the lending partner. The DECD loan management system presented a receivable balance of $3,693,172 as of June 30, 2017. However, the lending partner reported a receivable balance of $1,726,584, a difference of $1,966,588.

Context: DOH reported loan receivables of $230,434,614 and $300,227,541 for the fiscal years ended June 30, 2016 and 2017, respectively.

Effect: DOH may not be properly accounting for or reporting loans balances. As a result, financial disclosures on the state's financial statements may be inaccurate.

Cause: DECD omitted receivable balances for the Shoreline Resiliency Loan Fund from the DOH loan receivables reported to the Office of the State Comptroller for the fiscal years ended June 30, 2016 and 2017. Other errors in the amounts reported were primarily due to clerical mistakes and oversights. In addition, neither department considered the need to reconcile principal balances to amounts reported by lending partners.

Prior Audit Finding: This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in 4 DECD audit reports dating back to the fiscal year ended June 30, 2007.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to ensure that receivable balances are accurate and properly reported to the Office of the State Comptroller. In addition, the Department of Housing should perform reconciliations of receivable balances to amounts reported by the lending partners. (See Recommendation 9.)

Agency Response: "DOH agrees with this finding and has worked with DECD to correct the Shoreline Resiliency lending partner receivable balances. In FY 17-18 DECD implemented a reconciliation process in which loan receivables are reconciled to the loans management system on a monthly basis. In addition, to ensure the accuracy of the loan receivable balances, DECD is reviewing lending partner reports. This is part of the preparation for an ECL loan reconciliation to be completed in FY21."

Payroll Cost Allocation

Background: The Department of Housing has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs financial and administrative functions for DOH.

DECD allocates payroll costs to the various DOH programs through a cost allocation process. DOH initially charges employee payroll costs to a preassigned expenditure code. Employees charge the time they worked on programs on their timesheet. DECD later allocates payroll costs to the programs that employees worked on and makes the necessary adjustments in the accounting system manually.

Criteria: Section 4-97 of the General Statutes provides that no appropriation or part thereof shall be used for any other purpose than that for which it was made unless it is transferred or revised as provided in Section 4-87.

Title 2 Code of Federal Regulations 200.405 provides that a cost is allocable to a particular federal award if the goods or services involved are chargeable or assignable to that federal award in accordance with relative benefits received.

Condition: We reviewed 4 payroll and fringe benefit adjustments totaling $751,782 from the fiscal years ended June 30, 2016 and 2017. Our review disclosed that the department understated General Fund costs by $33,841 and overstated Home Investment Partnership Program costs within the special revenue fund by $33,841.

Context: Salary and fringe benefit expenditures for the fiscal years ended June 30, 2016 and 2017 totaled $11,835,002.

Effect: DECD did not allocate DOH payroll costs in accordance with the relative benefits received. This resulted in DOH charging unallowable costs to a federal program.

Cause: There was not enough funding available in the General Fund to fully charge allocated costs.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to ensure that they allocate payroll costs in accordance with the relative benefits received. In addition, the Department of Housing should ensure that it only charges allowable payroll costs to federal programs. (See Recommendation 10.)

Agency Response: "DOH agrees with the audit finding. To assure only allowable payroll costs are charged to the federal program, in FY 2018 DOH and DECD implemented the use of payroll codes in which employees report actual time. Payroll will be charged to appropriate funding based on this coding and supervisory overview. DOH staff will receive additional training on use of payroll codes."

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. In addition, the program promotes regular communication between these 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.

Collective bargaining agreements provide that all employees shall receive an annual evaluation 3 months prior to their anniversary date. The P-5 bargaining unit agreement covers employees appointed originally on a provisional basis, and/or employees appointed to durational positions established for six months or more.

Condition:	Our review of the personnel files of 4 managers and 5 employees disclosed that DOH did not complete annual performance evaluations for 3 managers and one durational employee during the fiscal years ended June 30, 2016 and 2017. In addition, the department only completed one annual evaluation for the other manager in our sample during the audited period.
Context:	During the fiscal years ended June 30, 2016 and 2017, DOH had 9 managers and 41 employees who needed annual evaluations.
Effect:	The absence of written performance evaluations significantly diminishes the department's ability to measure the performance and progress of its staff.
Cause:	The department has inadequate administrative controls for ensuring the completion of performance evaluations. In addition, the department does not believe that durational employees require performance evaluations.
Prior Audit Finding:	This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015.
Recommendation:	The Department of Housing should ensure that it performs annual evaluations for all managers and employees. (See Recommendation 11.)
Agency Response:	"DOH agrees with this audit finding. This practice occurred under a prior administration. Corrective action shall be taken to ensure performance reviews are performed and completed annually for DOH staffs."

Obligations Incurred Without Proper Accounting Commitments

Background:	The Department of Housing has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs financial and administrative functions for DOH, including processing some expenditure transactions for DOH.
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 transmitted to the State Comptroller to commit the agency's appropriations to ensure that funds are available for the payment of such obligations. Proper internal controls related to purchasing require proper authorization of commitment documents prior to the receipt of goods or services.
Condition:	We noted that DOH committed funds after the receipt of goods or services in 3 of 24 expenditure transactions reviewed.

Effect: There is less assurance that funds will be available at the time of payment if funds are not properly committed.

Cause: Both DOH and DECD issue purchase orders for goods or services used by DOH. The departments did not adequately carry out established control procedures.

Prior Audit Finding: This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015. In addition, prior to the establishment of DOH, the finding was reported in 4 DECD audit reports dating back to the fiscal year ended June 30, 2007.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to ensure that funds are committed prior to purchasing goods and services. (See Recommendation 12.)

Agency Response: "DOH agrees with this audit finding. Procedures are in place, which requires that all commitments are on Contracts and PO's prior to the purchasing of goods and services. The agency will strengthen this process by providing additional staff training and communication. The Office of Finance and Administration will notify department supervisors to assure procedures are followed."

Asset Management Not in Accordance with Prescribed Procedures

Background: The Department of Housing has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs administrative functions for DOH, including maintaining its property control system and submitting annual inventory reports.

Criteria: Section 4-36 of the General Statutes requires that each state agency establish and maintain an inventory account in the form prescribed by the State Comptroller, and shall annually, on or before October 1st, transmit a detailed inventory as of June 30th of all real property and personal property to the Comptroller.

The State of Connecticut Property Control Manual provides the following standards and procedures for maintaining a property control system.

- Property records should be complete and accurate and should contain sufficient information to adequately track and report items. At a minimum, this information should include item description, cost, tag number, and location.

- Agencies should tag all personal property unless tagging the item would be impractical or would otherwise alter the item's usefulness. The tag should provide a unique number and the property owner's name.

- Agencies should continuously survey property to determine which assets are no longer needed, reassign property among its activities when it is no longer required for its current use, and report to the State Property Distribution Center personal property that become surplus to an agency's needs, is unserviceable, obsolete, or otherwise unusable.

- Property that is deemed lost, missing, unaccountable, expired, spoiled, or damaged must be removed from the property record.

Condition: We selected 25 inventory items during a physical inspection of the department's assets to verify that they were properly included in the inventory records. Our review disclosed the following:

- DOH was still using one item, but the department listed it as not in service in its inventory records.

- We could not find 5 items in the location indicated in the inventory records.

- Two items that had been disposed of were still included in the department's inventory records.

Context: The department reported $269,158 and $292,265 in real and personal property for the fiscal year ended June 30, 2016 and 2017, respectively.

Effect: If DOH does not maintain accurate inventory records, there is an increased risk that inventory could be lost or stolen, and a decreased possibility to detect such activity. The department's property control records did not comply with requirements of the State of Connecticut Property Control Manual.

Cause: DECD is responsible for maintaining the property control system for DOH. DECD has not made a sufficient effort to maintain accurate inventory records for DOH in accordance with the State of Connecticut Property Control Manual.

Prior Audit Finding: This finding has been previously reported in the last DOH audit report covering the fiscal years ended June 30, 2014 and 2015. In addition, prior to the establishment of DOH, the finding was reported in 2 DECD audit reports dating back to the fiscal year ended June 30, 2011.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to improve internal controls and maintain its property control system in accordance with the State of Connecticut Property Control Manual. (See Recommendation 13.)

Agency Response: "DOH agrees with the audit finding, DECD has updated processes for asset management. Transfers, surplus and retirement of items will be immediately updated in the asset management database in CORE-CT. Staff has been trained on updated processes. DECD has also updated the controllable asset items in compliance with state guidelines."

Failure to Delete Core-CT Access for Separated Employees

Background: The Department of Housing has a memorandum of understanding with DECD regarding the sharing of administrative functions and resources. Under the agreement, DECD performs administrative functions for DOH, including information technology services.

Criteria: Core-CT is the state's integrated human resources, payroll, and financial system. The Core-CT Security Liaison Guide states that each agency is responsible for assigning one or more security liaisons to be the point of contact for security related requests, issues, and communications. The agency liaison is responsible for locking out functional Core-CT users immediately upon an employee's termination. DECD security liaisons also perform these functions for DOH.

Condition: Our review disclosed that DECD did not immediately deactivate Core-CT access to 3 separated DOH employees.

Context: During the fiscal years ended June 30, 2016 and 2017, 4 DOH functional Core-CT users terminated, retired, or transferred to another department or agency.

Effect: DECD did not promptly terminate former DOH employees' access to Core-CT, which resulted in an increased risk of unauthorized access to the system and possible manipulation of data.

Cause: DECD has not established appropriate controls to deactivate the Core-CT access of separated DOH employees.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Housing should work with the Department of Economic and Community Development to immediately deactivate the Core-CT access of separated employees. (See Recommendation 14.)

Agency Response: “DOH agrees with this finding. Access to CORE-CT has been terminated for all former employees. DOH, in cooperation with DECD, now have an updated process to ensure compliance with DAS policies to remove terminated employees from having access to CORE-CT.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Department of Housing contained 11 recommendations. Two have been implemented or otherwise resolved, and 9 have been repeated or restated with modifications during the current audit.

- 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. **This recommendation is being repeated. (See Recommendation 6.)**

- 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. **This recommendation is being repeated. (See Recommendation 7.)**

- 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). **This recommendation is being repeated. (See Recommendation 9.)**

- The Department of Housing should properly calculate loan interest receivables consistent with the amounts billed to recipients, in accordance with financial assistance agreements. **This recommendation is being repeated. (See Recommendation 3.)**

- 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. **This recommendation is being repeated. (See Recommendation 1.)**

- 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. **This recommendation is being repeated. (See Recommendation 2.)**

- The Department of Housing should ensure that it properly approves compensatory time within the required timeframe. **This recommendation has been resolved.**

- The Department of Housing should ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System evaluation forms. **This recommendation is being repeated. (See Recommendation 11.)**

- The Department of Housing should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. **This recommendation is being repeated. (See Recommendation 12.)**

- 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. **The department transferred its information technology infrastructure and applications to the Bureau of Enterprise Systems and Technology (BEST) within the Department of Administrative Services. DOH will now be covered by BEST's disaster recovery plan; therefore, this recommendation has been resolved.**

- 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. **This recommendation is being repeated. (See Recommendation 13.)**

Current Audit Recommendations:

1. **The Department of Housing should ensure that it performs a complete review of all projects from application until project closeout, and should only disburse funds during approved budget periods. In addition, the department should ensure that recipients follow assistance agreement requirements.**

   Comment:

   A review of Small Cities, HOME, FLEX, and HTF projects identified missing eligibility review forms and instances where DOH did not monitor or close out projects in a timely manner. In addition, DOH spent $4,979,160 prior to receiving delinquent reports required in the assistance agreements and spent $330,579 outside of the approved budget periods.

2. **The Department of Housing and its Rental Assistance Program vendor should ensure that they properly calculate and support payments. In addition, they should document that they are properly selecting tenants from the waiting list and ensure household members are not registered sex offenders.**

   Comment:

   A review of 20 RAP transactions noted that in 3 cases, DOH incorrectly calculated the utility allowances used to determine RAP payments. In one case, DOH did not support the tenant's total annual income with a zero income written statement on file. In 2 cases, there was no documentation available to show whether tenants were referred from a specialty program or properly selected from the waiting list. In another case, DOH did not verify that household members were not registered sex offenders prior to admitting them to the program.

3. **The Department of Housing should work with the Department of Economic and Community Development to ensure that loan interest is calculated and capitalized in accordance with financial assistance agreements.**

   Comment:

   DECD did not always calculate interest accruals for DOH loans in accordance with the terms of the assistance agreements and mortgage notes. As a result, DOH may not receive the proper amount of interest payments from loan recipients. In addition, DOH reported inaccurate interest receivable amounts to the State Comptroller.

4. **The Department of Housing should ensure that administrative expenses incurred to establish and operate its programs are reasonable. The department should ensure that all program contracts protect it from excessive administrative costs.**

   Comment:

   DOH paid unreasonable and excessive administrative fees to its lending partner to launch and operate the Shoreline Resiliency Loan Fund. DOH provided its lending partner $700,000 for administrative fees; however, the lending partner only made 12 loans under the program. As a result, DOH paid $58,333 per loan for administrative fees.

5. **The Department of Housing should establish and implement procedures to monitor the activities of its lending partners that administer and service financial assistance provided under the Shoreline Resiliency Loan Fund and Energy Conservation Loan Fund programs.**

   Comment:

   DOH did not establish adequate procedures to monitor the lending partners that administer and service financial assistance provided under the Shoreline Resiliency Loan Fund and Energy Conservation Loan programs. DOH did not review the lending partners' controls over financial applications and processes and did not obtain or review their independent audit reports. In addition, activity reports received by the Shoreline lending partner did not include all the elements required by the agreement.

6. **The Department of Housing should improve its cash management procedures by only disbursing funds to grantees for immediate needs and ensuring that grantees promptly refund any overpayments. DOH should change its assistance agreements to require more timely refunds of unexpended state funds.**

   Comment:

   DOH allowed grantees to hold unexpended state funds for an excessive period. For 10 projects reviewed, 9 grantees held $148,002 in unexpended state funds for over a year.

7. **The Department of Housing should work with the Department of Economic and Community Development to track unexpended balances from completed or cancelled bond-funded projects.**

   Comment:

   DOH did not track allocations for the Affordable Housing Program. Additionally, DOH's tracking spreadsheet for the Housing Trust Fund Program contained errors and did not identify all completed or cancelled projects.

8. The Department of Housing should work with the Department of Economic and Community Development to ensure that receivable balances are accurate and loan advances are promptly entered into the loan management system.

Comment:

Our review of 10 Home Investment Partnerships, Affordable Housing, and Housing Trust Fund projects disclosed that for 4 loans, DECD did not input advances into the loan management system in a timely manner. In addition, DECD double entered 2 Home Investment Partnerships loans, totaling $3,339,519, in the loan management system.

9. The Department of Housing should work with the Department of Economic and Community Development to ensure that receivable balances are accurate and properly reported to the Office of the State Comptroller. In addition, the Department of Housing should perform reconciliations of receivable balances to amounts reported by the lending partners.

Comment:

DECD understated DOH loan receivables reported to the Office of the State Comptroller by $9,254,918 and $1,799,430 for the fiscal years ended June 30, 2016 and 2017, respectively. In addition, DECD understated the amount of uncollectible receivables by $191,882 for the fiscal year ended June 30, 2016.

DECD did not prepare reconciliations of receivable balances for the DOH Energy Conservation Loan and Shoreline Resiliency Loan Fund programs to amounts reported by the lending partners.

10. The Department of Housing should work with the Department of Economic and Community Development to ensure that they allocate payroll costs in accordance with the relative benefits received. In addition, the Department of Housing should ensure that it only charges allowable payroll costs to federal programs.

Comment:

We reviewed 4 payroll and fringe benefit adjustments totaling $751,782 from the fiscal years ended June 30, 2016 and 2017. Our review disclosed that the department understated General Fund costs by $33,841 and overstated Home Investment Partnership Program costs within the special revenue fund by $33,841.

11. **The Department of Housing should ensure that it performs annual evaluations for all managers and employees.**

    Comment:

    Our review of the personnel files of 4 managers and 5 employees, disclosed that DOH did not complete annual performance evaluations for 3 managers and one durational employee during the fiscal years ended June 30, 2016 and 2017. In addition, the department only completed one annual evaluation for the other manager in our sample during the audited period.

12. **The Department of Housing should work with the Department of Economic and Community Development to ensure that funds are committed prior to purchasing goods and services.**

    Comment:

    Our review of 24 expenditures identified that DOH committed funds after the receipt of goods or services in 3 cases.

13. **The Department of Housing should work with the Department of Economic and Community Development to improve internal controls and maintain its property control system in accordance with the State of Connecticut Property Control Manual.**

    Comment:

    Inventory records did not reflect the actual inventory on hand. We noted that DOH was still using one item, but the department listed it as not in service in its inventory records; 5 items in different locations than indicated in the inventory records; and 2 items that had been disposed of that were still included in the inventory records.

14. **The Department of Housing should work with the Department of Economic and Community Development to immediately deactivate the Core-CT access of separated employees.**

    Comment:

    Our review disclosed that DECD did not immediately deactivate Core-CT access to 3 separated DOH employees.

ACKNOWLEDGMENTS

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

Romina Andrade
Bryne Botticelli
Ariell Ivan Diaz
Catherine Dunne
Kadie Noble
Kathleen Smith

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 our examination.

Catherine L. Dunne

Catherine L. Dunne
Principal Auditor

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor