

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF HOUSING
FISCAL YEARS ENDED JUNE 30, 2018, 2019, AND 2020*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ♦ CLARK J. CHAPIN

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EXECUTIVE SUMMARY

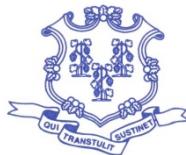
In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Department of Housing (DOH) for the fiscal years ended June 30, 2018, 2019, and 2020. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies; and a need for improvement in practices and procedures that warrant the attention of management. The significant findings and recommendations are presented below:

<u>Page 9</u>	A review of housing and community development projects identified missing payment documents, mortgage notes, an eligibility review form, and a federal Housing and Urban Development (HUD) Request for Release of Funds approval letter. In addition, DOH spent \$1,053,012 outside of the approved budget period and did not promptly monitor or close out projects. DOH should ensure that it performs a complete review of all projects from application until project closeout and only disburse funds during approved budget periods. The department should retain all supporting documentation in accordance with the State Librarian's records retention requirements and ensure that recipients follow assistance agreement requirements. (Recommendation 1)
<u>Page 13</u>	Our review of 15 Rental Assistance Program (RAP) payments noted that DOH did not have adequate supporting documentation in two cases, did not complete an annual re-examination in one case, and made \$2,689 in improper payments in two cases. In addition, DOH has not updated the utility allowance schedule since 2012. DOH and its RAP vendor should ensure that they promptly complete reexaminations and properly calculate and support payments. In addition, the department should ensure that the utility allowance schedule reflects current rates. (Recommendation 2)
<u>Page 15</u>	DOH did not hold its Section 8 and Rental Assistance Program vendor accountable for correcting repeat errors and did not complete a supervisory quality control review for two of the audited years. DOH should work with its vendor to correct the underlying issues that cause repeat errors and hold the vendor accountable for reducing error rates. In addition, the department should perform a supervisory quality control review to ensure its vendor is complying with program requirements. (Recommendation 3)
<u>Page 18</u>	Due to construction delays and cost overruns, DOH awarded a \$1,874,917 National Housing Trust Fund grant to complete a project that had received prior DOH funding. For projects it funds, DOH should develop a system to track developers and contractors and their ability to complete projects on time and without cost overruns. The department should avoid funding projects that involve contractors with a history of not successfully completing projects. The department should develop policies and procedures to provide guidance on its administration of delayed projects to reduce the need for additional funding. In addition, the department should develop policies and procedures on proceeding with projects that lose investor funding. (Recommendation 4)

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DOH allowed grantees to hold unexpended state funds for an excessive period. For 15 projects reviewed, 13 grantees held \$238,178 in unexpended state funds for more than a year. DOH should improve its cash management procedures by only disbursing funds to grantees for immediate needs and ensuring that grantees promptly refund any overpayments. The department should change its assistance agreements to require more timely refunds of unexpended state funds. In addition, the department should work with the Department of Economic and Community Development to ensure that it promptly posts deposits. (Recommendation 9)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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April 26, 2022

AUDITORS' REPORT DEPARTMENT OF HOUSING FISCAL YEARS ENDED JUNE 30, 2018, 2019 and 2020

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, 2018, 2019, and 2020. 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. Our testing was not designed to project to a population unless specifically stated. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents 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 ensure everyone has access to quality housing opportunities and options throughout the State of Connecticut.

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:

- **Special Act 17-19**, effective from passage, required the DOH commissioner, in consultation with the chairpersons of the Housing Committee of the General Assembly, to designate three state-funded housing projects that provide services to elderly tenants with disabilities. The department, in consultation with the Department of Mental Health and Addiction Services, Department of Aging, Department of Developmental Services, and Disability Rights Connecticut, Inc. was required to conduct a study of these state-funded housing projects and convene meetings of stakeholders to receive information related to the study. The commissioner of DOH was required to report the findings of the study to the Housing Committee on or before March 1, 2018.
- **Public Act 17-177**, effective from passage, provided that no employee or contractor shall solicit, disclose, receive or make use of, or authorize, knowingly permit, participate in or acquiesce in the use of, any list of the names of, or any information concerning, individuals applying for or receiving DOH assistance or individuals participating in a DOH administered program.
- **Public Act 17-236 (Section 20)**, effective from passage, required DOH and the Department of Banking, in consultation with the banking community to, within available appropriations, conduct a study concerning the development of a lead abatement interest rate reduction program that provides interest rate subsidies to owners who experience difficulty obtaining financing for lead abatement. The act required the DOH and Banking commissioners to submit a report to the Housing, Banking, and Planning and Development Committees of the General Assembly no later than January 1, 2018.
- **Public Act 17-2 of the June Special Session (Section 335)**, effective from passage, provided that DOH may apply for, receive, and administer any federal funds available by the United States Department of Housing and Urban Development Section 108 Loan Guarantee program to assist owners of residential buildings with concrete foundations that have deteriorated due to the presence of pyrrhotite. The act required the department to deposit these federal funds into the Crumbling Foundations Assistance Fund.

Section 347 of the act created a special homeowner advocate within DOH. The advocate is responsible for:

1. Coordinating the state's efforts to assist owners of residential buildings with concrete foundations that have deteriorated due to the presence of pyrrhotite.
2. Working with the federal government regarding any federal support available to the owners of such residential buildings.
3. Advising and assisting these owners in making claims for financial assistance.
4. Assisting these owners in accessing any other available assistance or support.
5. Referring these owners to any entity that provides assistance or support.

6. Assisting in the resolution of complaints concerning the operations of the captive insurance company created to assist owners who repair their homes.
7. Filing a report, not less than annually, with the joint standing committees of the General Assembly having cognizance of matters relating to insurance, finance, planning and development, housing and public safety describing any trends in the complaints described in subdivision (6) of this section and making recommendations to improve the efficiency, fairness, or operations of the captive insurance company.
8. Testifying at any hearing held by committees of the General Assembly regarding the report described in subdivision (7) of this section.

Section 553 of the act authorized the State Bond Commission to issue up to \$100 million of bonds for the DOH Crumbling Foundations Assistance Fund.

- **Special Act 18-12**, effective June 6, 2018, required the DOH commissioner to submit a report on or before October 1, 2018, in accordance with the provisions of Section 11-4a of the General Statutes, to the Housing Committee of the General Assembly. Such report was to include recommendations to improve the state-funded housing projects designated pursuant to subsection (a) of Section 1 of Special Act 17-19.
- **Public Act 18-160 (Section 1)**, effective January 1, 2019, imposed a \$12 surcharge on certain homeowners' insurance policies. All remittances, except for the amount equal to the cost of funding an administrative officer position at the Insurance Department to facilitate the surcharge collection, were required to be deposited in the Healthy Homes Fund. Not later than 30 days after deposit, 85% were required to be transferred to the Crumbling Foundations Assistance Fund.

Section 2, effective June 13, 2018, established a separate nonlapsing General Fund account known as the Health Homes Fund to collect insurance surcharge funds. DOH must use 15% of surcharges deposited in the fund to (1) provide the Department of Economic and Community Development with up to \$1 million for grants to homeowners with homes in the immediate vicinity of the West River in the Westville section of New Haven and Woodbridge for structurally damaged homes due to subsidence and to homeowners with homes abutting the Yale Golf Course in the Westville section of New Haven for damage to homes from water infiltration or structural damage due to land settling and (2) fund a program, including related administrative expenses, to reduce residential health and safety hazards from such things as lead, radon, and other contaminants and conditions, including removal, remediation, and abatement.

- **Public Act 18-179 (Section 4)**, effective January 1, 2019, limited DOH contaminant abatement activities included in Public Act 18-160 to lead removal, remediation, and abatement.

- **Public Act 19-117, (Section 37)**, effective July 1, 2019, required DOH, in collaboration with the Department of Children and Families to submit a report to the Appropriations Committee, in accordance with Section 11-4a of the General Statutes. The report was to detail for the immediately preceding fiscal year on or before December 15, 2019, and on or before December 15, 2020: (1) the number of Department of Children and Families involved families who were accepted into DOH's Rental Assistance Program from the program's waitlist, (2) the services provided to such families as part of the program, (3) the average cost of such services per family, (4) the average number of days that families participated in the program, and (5) the outcome for such families six months after leaving the program.

RÉSUMÉ OF OPERATIONS

The Department of Housing accounted for its operations for the fiscal years ended June 30, 2018, 2019, and 2020 in the General Fund, special revenue funds, and a non-capital improvement fund. Each fund's activity is presented in the sections that follow:

General Fund

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

Receipt Description	Fiscal Year Ended June 30,		
	2018	2019	2020
Utility Subsidy Income	\$830,060	\$737,861	\$643,193
Refunds of Expenditures	417,750	100,399	224,512
All Other	2,100	72,694	-
Total Receipts	\$1,249,910	\$910,954	\$867,705

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, the recipient must return excess funds to the state.

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

Expenditure Description	Fiscal Year Ended June 30,		
	2018	2019	2020
Personal Services	\$1,643,198	\$1,752,335	\$1,767,450
Housing/Homeless Services	70,799,946	74,347,554	76,500,780
Congregate Facilities Operating Cost	7,189,480	7,189,480	7,189,480
Assisted Living Demonstration	2,084,241	2,084,241	2,612,000
Elderly Congregate Rent Subsidy	1,942,268	1,941,692	1,935,242
Homeless Youth	2,282,505	2,291,601	2,284,904
Elderly Rental Assistance	1,012,903	1,000,262	1,011,170
Other Expenditures	153,945	153,932	164,892
Total Expenditures	\$87,108,486	\$90,761,097	\$93,465,918

General Fund expenditures increased by \$3,652,611 and \$2,704,821 during the fiscal years ended June 30, 2019 and 2020, respectively. DOH's General Fund expenditures consist primarily of state aid grants for housing and homeless services. The increase in expenditures was primarily attributable to additional funding for housing and homeless services, including 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.

Special Revenue Funds

DOH primarily used special revenue funds to account for federal and other restricted monies and 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 follows:

Receipt Description	Fiscal Year Ended June 30,		
	2018	2019	2020
Federal Contributions	\$149,884,861	\$140,601,592	\$140,274,326
Restricted Contributions, Other	9,249,098	8,843,700	21,982,608
Principal and Interest on Loans	3,717,501	3,101,762	2,879,220
Total Receipts	\$162,851,460	\$152,547,054	\$165,136,154

Total receipts from special revenue funds decreased by \$10,304,406 during the fiscal year ended June 30, 2019 and increased by \$12,589,100 during the fiscal year ended June 30, 2020. The decrease in receipts during the fiscal year ended June 30, 2019 was primarily attributable to fluctuations in federal contributions. Expenditures for the temporary Hurricane Sandy Community Development Block Grant Disaster Recovery Program (CDBG-DR) decreased significantly during the fiscal year ended June 30, 2019. 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 receipts during the fiscal year ended June 30, 2020 was primarily attributable to funds for the Healthy Home program. Public Act 18-160 imposed a \$12 surcharge on certain homeowners' insurance policies. Most of these funds were deposited into the Crumbling Foundations Assistance Fund to assist homeowners with foundations damaged by the presence of pyrrhotite.

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

Program Description	Fiscal Year Ended June 30,		
	2018	2019	2020
Federal Restricted Accounts:			
Section 8 Housing Choice Vouchers	\$84,397,666	\$89,940,611	\$95,043,038
Hurricane Sandy CDBG-DR	30,097,941	8,809,921	6,266,977
Community Development Block Grants	10,309,261	9,698,733	8,584,098
Social Services Block Grant	8,192,492	7,594,632	6,851,722
Section 8 Housing Assistance Payments	5,320,981	5,849,416	5,451,548
Home Investment Partnerships	2,160,996	2,609,988	6,051,930
Emergency Solutions Grants	2,179,379	2,069,542	2,268,497
National Disaster Resilience Competition	1,881,051	3,731,496	3,165,685
Housing for Persons with Disabilities	1,493,275	1,622,730	2,114,854
Continuum of Care Program	1,376,894	2,666,976	6,725,005
Lead Hazard Reduction Demonstration	-	2,816,800	1,147,081
Disaster Grants	-	-	3,853,625
Coronavirus Relief Fund	-	-	2,353,148
Other Federal Restricted	1,155,201	2,601,354	4,684,826
Total Federal Restricted:	148,565,137	140,012,199	154,562,034
Other Restricted Accounts:			
Community Investment Act	1,850,148	1,539,985	1,649,219
DOH Supportive Housing	5,950,000	5,950,000	5,950,000
Crumbling Foundations Assistance	-	-	10,601,209
Other Restricted	639,052	596,501	1,566,387
Total Other Restricted:	8,439,200	8,086,486	19,766,815
Other Special Revenue Funds:			
Housing Trust Fund	18,655,989	7,964,948	17,623,496
Housing Assistance Fund	70,503,979	64,708,464	88,809,742
Housing Loan Fund	1,663,679	2,225,917	2,323,364
Economic Development Fund	2,350,610	135,765	102,469
STEAP-Grants to Local Governments	782,366	41,653,540	25,295,525
Other Special Revenue Funds	731,343	1,071,610	1,818,852
Total Other Special Revenue Funds:	94,687,966	117,760,244	135,973,448
Total Expenditures	\$251,692,303	\$265,858,929	\$310,302,297

Total expenditures from special revenue funds increased by \$14,166,626 and \$44,443,368 during the fiscal years ended June 30, 2019 and 2020, respectively. Grants and loans comprise approximately 95% of expenditures from special revenue funds. DOH administers a number of financial assistance programs to create affordable housing for low and moderate-income families. Fluctuations in Housing Trust Fund and Housing Assistance Fund expenditures are primarily due to the timing of these construction or rehabilitation projects.

Expenditures for the Hurricane Sandy Program decreased significantly during the fiscal years ended June 30, 2019 and 2020 due to the program winding down. The increases in expenditures for Crumbling Foundations Assistance and Small Town Economic Assistance Program (STEAP) grants were primarily for funds provided to the Connecticut Foundation Solutions Indemnity Company, Inc. from the Crumbling Foundations Assistance Fund. Public Act 17-2, Section 553 of the June 2017 Special Session authorized the issuance of bonds up to \$100 million for the purposes of the Crumbling Foundations Assistance Fund. In addition, Public Act 18-160 provided that 85% of funds deposited in the Healthy Homes Fund were to be transferred to the Crumbling Foundations Assistance Fund.

Non-Capital Improvement Funds

Total expenditures from non-capital improvement funds were \$426,513, \$999,702, and \$3,830,267 for the fiscal years ended June 30, 2018, 2019, and 2020, respectively. Most of these funds were for an Urban Act grant and the Crumbling Foundations Testing Program. Urban Act program funds are authorized by the State Bond Commission for redirecting, improving, and expanding state activities, which promote conservation and development, and improve the quality of life for urban residents of the state. In addition, under the Crumbling Foundations Testing Program, homeowners with crumbling foundations or who suspect they may have pyrrhotite in their foundations can get assistance for core testing or visual inspection by an engineer.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Housing disclosed the following 20 recommendations, of which 11 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 assistance agreements and mortgage notes with recipients stipulate the terms and conditions of the assistance, including the rate and method for calculating interest. The Department of Economic and Community Development (DECD) enters loans executed by DOH into its loan management system, which automatically generates invoices detailing principal and interest 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, 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.

Title 24 Code of Federal Regulations (CFR) 58.22 states that neither a recipient nor any participant in the development process, including public or private nonprofit or for-profit entities, or any of their contractors, may commit HUD assistance under a program listed in 58.1(b) on an activity or project until HUD or the state has approved the recipient's Request for Release of Funds (RROF) and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit non-HUD funds on or undertake an activity or project under a program listed in 58.1(b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives. Title 24 CFR 58.1(b)(4) states that the requirements of Title 24 Part 58 apply to the HOME program.

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

DOH provides funding for HOME, FLEX, and HTF projects on a reimbursement basis. Recipients submit requests for payment, which the department reviews for accuracy and approves for payment.

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 recipients, to modify the development budgets and extend the end dates.

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 all for-profit recipients, cost certifications within 120 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/female-owned businesses to which it awarded contracts, as well as the amount of the contract award

The Small Cities Grant Program Management Manual requires DOH to conduct on-site monitoring at least once during the period 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.

DECD Office of Financial Review procedures provide that DECD assist DOH in the closeout of certain housing contracts. At the completion of the projects, recipients submit cost certifications or state or federal audits prepared by a certified public accounting (CPA) firm. For HOME, FLEX, and HTF projects, DECD issues a Certificate of Approved Program Cost and State Funding. DOH issues a certificate of completion to financially close out the contract for Small Cities projects.

Section 11-8a(b) of the General Statutes provides that the State Librarian may require each such state agency to submit retention schedules for all such books, records, papers, and documents for approval. The records retention schedules require DOH to retain approved loan and grant files for seven years after the term of the contract, or until audited, whichever is later.

Condition:

We reviewed six Small Cities, one HOME, 12 FLEX, and two HTF project files, for which DOH provided \$75,880,515 during the fiscal years ended June 30, 2018, 2019, and 2020. In addition, we reviewed the project closeouts performed on five Small Cities projects selected during the prior audit. Our review identified the following deficiencies:

- DOH was missing eligibility review forms for one HOME and eight FLEX projects.
- DOH was missing a HUD approval letter for the Request for Release of Funds for one HOME project.
- DOH was missing mortgage notes for one HOME and one FLEX project.
- DOH did not have approved payment documents on file for 21 payments made to one HOME and four FLEX projects, totaling \$14,258,415.
- DOH made a payment outside the approved budget period for one FLEX project.
- Quarterly monitoring reports were missing for one HOME, seven FLEX, and two HTF projects.
- 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 one HOME, seven FLEX, and two HTF projects.
- DOH did not promptly monitor one Small Cities project. DOH conducted monitoring 21 months late. DOH had not monitored two other projects at the time of our review even though their budget expiration dates were 28 to 43 months earlier.
- DOH did not issue timely monitoring letters and certificates of completion after conducting monitoring for two Small Cities projects. DOH did not issue monitoring letters and certificates of completion until 19 to 29 months after performing the monitoring. For one other project, DOH had not issued a monitoring letter or certificate of completion at the time of our review, despite completing its monitoring 47 months earlier.
- DOH did not close out the projects in a timely manner for nine FLEX and two HTF projects.

- DOH did not obtain the documentation necessary to close out eight FLEX and two HTF projects despite them being due for one to three years.
- DOH had not closed out one FLEX project at the time of our review despite the closeout documentation being available for 1.5 years.

Context:

DOH paid \$27,218,830 for Small Cities projects, \$8,385,937 for HOME projects, \$224,763,658 for FLEX projects, and \$46,705,053 for HTF projects during the fiscal years ended June 30, 2018, 2019, and 2020.

Effect:

There is increased risk that the department made improper payments and project costs are ineligible for federal funding. In addition, there is reduced assurance that repayment terms and interest rates are accurately captured in the department's loan system.

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. In addition, the department may not identify excess disbursements and ensure their prompt return.

DOH spent \$1,053,012 outside of the approved budget period.

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 need for coordination of tasks between the agencies contributed to the delays.

Due to Covid-19, DOH employees did not regularly work in the department's office. As a result, they were not able to locate some project files.

The department lacks a policy stipulating a deadline for completing monitoring and issuing monitoring letters and certificates of completion.

Prior Audit Finding: This finding has been previously reported in the last two DOH audit reports covering the fiscal years ended June 30, 2014 through 2017. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in two 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 only disburse funds during approved budget periods. The department should retain all supporting documentation in accordance with the State

Librarian's records retention requirements and ensure that recipients follow assistance agreement requirements.

The department should adopt policies stipulating deadlines for completing monitoring and issuing monitoring letters and certificates of completion. (See Recommendation 1.)

Agency Response:

"DOH agrees with this audit finding. Most 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 understaffed 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, because of this we have added staff to assignments and facilitate a 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.
- Upon annual reexamination, the housing authority runs Department of Social Services Eligibility Management System (EMS) and Department of Labor (DOL) reports to compare income on the family's personal declaration form.
- The housing authority may not execute a RAP contract more than 60 days after commencement of the lease term and will not make any payments until it executes the contract.
- The housing authority completes all reexaminations for families before the anniversary date.
- The housing authority reviews the utility allowance schedule periodically. If the review finds a utility rate has changed by 10% or more since the last revision of the utility allowance schedule, the schedule will be revised to reflect the new rate.

Condition:

Our review of 15 RAP payments, totaling \$14,386, disclosed the following:

- In two cases, the housing authority did not run EMS and DOL reports to compare to the families' personal declaration forms.
- In one case, the housing authority made \$2,619 in payments prior to executing a RAP contract.
- In one case, the housing authority did not complete a reexamination prior to the family's anniversary date.
- In one case, the housing authority incorrectly overpaid \$70.
- The housing authority has not updated the utility allowance schedule since 2012.

Context: During the fiscal years ended June 30, 2018, 2019, and 2020, DOH paid \$182,706,519 for RAP assistance.

Effect: There is reduced assurance that DOH and its RAP vendor are correctly determining client eligibility, calculating payments, and completing required forms prior to disbursement of payments. In addition, there is increased risk that the department's utility payments do not reflect current rates.

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 two audit reports covering the fiscal years ended June 30, 2014 through 2017.

Recommendation: The Department of Housing and its Rental Assistance Program vendor should ensure that they promptly complete reexaminations and properly calculate and support payments. In addition, the department should ensure that the utility allowance schedule reflects current rates. (See Recommendation 2.)

Agency Response: “DOH partially agrees with the conditions stated in the finding. We agree that, as stated in the “Cause” to the finding, the errors were due to clerical mistakes and oversights by DOH and its vendor. The Department and its contracted vendor will continue to implement a detailed quality control process designed to identify and quickly correct clerical errors. We continue to look for ways to improve this procedure. We disagree with the condition in the finding related to not updating the utility allowance since 2012. Although the utility allowance has not changed, that was a DOH management decision, as increasing the utility allowance would have the effect of decreasing the allowable rent that a tenant utilizes in their community. DOH has determined that having the ability to find a unit at a higher rent level is a greater priority than modifying the utility allowances. DOH will forward a copy of its approval of the utility allowance.”

Auditors' Concluding

Comments: DOH should comply with its administrative plan regarding updating the utility allowance schedule or amend the administrative plan to reflect its current practices.

Inadequate Monitoring of a Contractor

Background: The United States Department of Housing and Urban Development's Section 8 Housing Choice Vouchers Program provides rental assistance to help very-low-income families afford decent, safe, and sanitary rental housing. The Mainstream 5-Year Vouchers Program enables families for whom the head, spouse, or co-head is a person with disabilities to lease

affordable private housing of their choice. The statewide Rental Assistance Program is the major state-supported program assisting low-income families in affording decent, safe, and sanitary housing. DOH administers the programs statewide with a contracted vendor. Families issued a Section 8, Mainstream, or RAP certificate is responsible for finding a suitable housing unit of their choice where the owner agrees to rent under the program. The vendor pays a housing subsidy directly to the landlord on behalf of the participating family.

Criteria: Good business practice provides that an agency should ensure vendors properly provide contracted services.

The Department of Housing's contract with the vendor that administers Section 8, Mainstream, and RAP provides that, if the agency believes the vendor has not performed according to the contract, the agency may:

1. Withhold payment in whole or in part, pending resolution of the performance issue, provided that the agency notifies the vendor in writing prior to the date that the payment would have been due in accordance with the budget.
2. Temporarily discontinue all or part of the services to be provided under the contract.
3. Permanently discontinue part of the services to be provided under the contract.
4. Assign appropriate state personnel to provide contracted-for services to ensure continued performance under the contract until such time as the contractual breach has been corrected to the agency's satisfaction.
5. Require that contract funding be used to enter into a subcontract with a person or persons designated by the agency to bring the program into contractual compliance.
6. Take such other actions of any nature as may be deemed appropriate for the best interests of the state or the program(s) provided under this contract or both.
7. Any combination of the above actions.

To ensure compliance with program requirements, DOH should perform an annual supervisory quality control review on a sample of tenant files.

Condition: DOH did not hold its vendor accountable for correcting repeat errors. Our review of Section 8 and Mainstream housing assistance payments during

the fiscal years ended June 30, 2018, 2019, and 2020 audits noted financial errors in 35% of the tenant files reviewed. In addition, our review of RAP payments noted financial errors in 13% of the tenant files reviewed.

DOH did not complete a supervisory quality control review for two of the audited years.

Context: During the fiscal years ended June 30, 2018, 2019, and 2020, DOH paid its contracted vendor \$16,060,969 to administer the Section 8 and Mainstream programs and \$9,869,311 to administer RAP.

Effect: There is an increased risk that the department is improperly disbursing state and federal money, and errors will continue to occur.

Cause: The contracted vendor corrected the specific errors noted but did not correct the underlying issues, resulting in repeat errors.

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

Recommendation: The Department of Housing should work with its vendor to correct the underlying issues that cause repeat errors and hold the vendor accountable for reducing error rates. In addition, the department should perform a supervisory quality control review to ensure its vendor is complying with program requirements. (See Recommendation 3.)

Agency Response: “DOH disagrees with this finding. DOH understands the importance of monitoring its programs on an annual basis, however, DOH also prioritizes the health and safety of its staff, the staff of its contracted vendors, and the health and safety of its ultimate customers (the public). Due the COVID-19 pandemic, DOH did not perform conduction any in person monitoring from March 2020-July 2021. Unfortunately, DOH was in the process of monitoring our subcontractor when COVID struck in the spring of 2020, and therefore, the contractor was not monitored for 18 months, which covered the last two fiscal years. DOH has already completed its annual monitoring of its contractor for fiscal year 2022. DOH has also received advice from the Attorney General that imposing fines for errors may be difficult to convince a court to support a liquidated damages provision unless DOH can demonstrate that it has suffered a tangible loss due to Contractor’s errors.”

Auditors’ Concluding

Comments: DOH should work with its contracted vendor to develop a corrective action plan that addresses the underlying cause of issues noted to prevent repeat errors.

Inadequate Controls over Project Cost Overruns

Background: The Department of Housing awarded a \$2,228,371 Home Investment Partnerships (HOME) loan and a \$3,523,526 Affordable Housing (FLEX) loan to a developer for the construction of 43 units of affordable housing. DOH was not the primary lender for the project.

Criteria: Good business practice dictates that prior to awarding assistance, the department should sufficiently gauge the ability of developers and their contractors to complete projects on time within budget.

Condition: The developer requested additional funds from DOH in January 2020 due to construction delays and cost overruns. The contractor stopped all work in February 2020, and an investor withdrew from the project due to the delays. DOH awarded the developer a \$1,874,917 National Housing Trust Fund grant in September 2020 to complete the project with a new contractor.

Context: DOH paid \$233.6 million for 112 HOME, FLEX, and National Housing Trust Fund projects during the fiscal years ended June 30, 2018, 2019, and 2020.

Effect: DOH awarded additional assistance without an increase in the planned number of affordable housing units.

Cause: DOH was not the primary lender on the project, making it more difficult to intervene. Assistance agreements are with developers and not contractors. DOH does not have policies and procedures providing guidance to address issues with contractors and projects with delays that may not be completed or may require additional funding.

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

Recommendation: For projects it funds, the Department of Housing should develop a system to track developers and contractors and their ability to complete projects on time and without cost overruns. The department should avoid funding projects that involve contractors with a history of not successfully completing projects.

The department should develop policies and procedures to provide guidance on its administration of delayed projects to reduce the need for additional funding. In addition, the department should develop policies and procedures on proceeding with projects that lose investor funding. (See Recommendation 4.)

Agency Response: “DOH partially agrees with the conditions of the finding. The department is reviewing its policies and procedures on issues arising from project cost overruns and implementing a working solution to address this issue. DOH believes that it followed all the available protocols in communicating with the parties involved in this project. The project was further impacted by the global health pandemic (COVID) including material supply delays. Accordingly, the department has implemented material costs increase review process and will work with our program staff and architectural technical services to review cost overruns that are submitted for additional funding or budget amendments to the department. DOH is also working with DAS to design a data system utilizing “SalesForce,” to assist in tracking each project in the construction phase to monitor the progress of the projects through project completion.”

Inadequate Controls over Incentive Housing Zones

Background: Section 8-13w of the General Statutes provides that, within available resources, the Commissioner of Housing may provide grants to municipalities for technical assistance and predevelopment funds in the planning of incentive housing zones (IHZ); the adoption of IHZ regulations and design standards; the review and necessary revision of applicable subdivision regulations; and applications to the commissioner for preliminary or final approval.

DOH approved a town’s incentive housing zone in February 2014. DOH awarded a \$20,000 Phase I grant to the town for adoption of IHZ regulations and a \$50,000 Phase II grant under the IHZ program for mixed income housing project activities.

Criteria: Section 8-13m(5) of the General Statutes provides that eligible incentive housing zone locations are: (A) an area near a transit station, including rapid transit, commuter rail, bus terminal, or ferry terminal; (B) an area of concentrated development such as a commercial center, existing residential or commercial district, or village district; or (C) an area that because of existing, planned or proposed infrastructure, transportation access or underutilized facilities or location, is suitable for development as an IHZ.

Section 8-13r of the General Statutes provides that each municipality whose zoning commission has received a final determination of eligibility and has adopted an approved incentive housing zone shall annually apply to the Commissioner of Housing for an IHZ certificate of compliance. If the commissioner determines that the municipality is in material noncompliance with the requirements of section 8-13m to 8-13x, inclusive, the commissioner, after notice and hearing pursuant to chapter 54, may revoke certification. Any revocation of certification, or other sanctions imposed by the commissioner under section 8-13v, shall not affect the validity of the IHZ regulations or the application of such regulations to a

pending or approved development application within the IHZ, but shall render the municipality ineligible for financial incentive payments set forth in Section 8-13s.

The Notice of Grant Award for the \$20,000 Phase I grant stated that the town is obligated to seek a certificate of compliance by the end of August 2015 and every year thereafter, until the completion of the incentive housing development within the approved incentive housing zone. The commissioner may require the municipality to repay expenses or reimbursements made by DOH for noncompliance with this requirement.

Condition: DOH did not adequately document how an incentive housing zone location met eligibility requirements and why the department approved the location.

In addition, the town did not submit an annual application for certification until 2020. DOH did not revoke the town's incentive housing zone certification or require repayment of grants.

Context: DOH approved \$220,000 in payments to 11 municipalities that adopted an incentive housing zone. There has been no new IHZ program activity since DOH's January 2018 Annual Report.

Effect: There is reduced assurance that the IHZ location met eligibility requirements. In addition, DOH should not have awarded the \$50,000 Phase II grant to the town and should have considered requiring the town to repay the \$20,000 Phase I grant.

Cause: Staff turnover led to new employees who were unaware of ongoing incentive housing zone program compliance requirements. The new employees were not involved with IHZ approvals and could not locate documentation that justified the IHZ eligibility determination.

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

Recommendation: The Department of Housing should adequately document how a location meets eligibility requirements to be an incentive housing zone and the rationale for the department's approval of the location. The department also should ensure that it obtains required submissions from municipalities. (See Recommendation 5.)

Agency Response: "DOH agrees with this audit finding. Most of this monitoring control breakdown is due to relevant staff turnover, and inadequate transition of responsibilities. Although there is no reason to believe that this project is outside of the IHZ, staff have been directed to re-verify that the property location is within the IHZ, and to document the file accordingly. This program is essentially on hold, with no new activity within the last three

years, however, staff have been notified on the necessary steps to take in the future, should this program become active again.”

Predevelopment Loan Program – Cost Certifications

- Background:* The Predevelopment Loan program is directed to housing developers seeking assistance with predevelopment costs incurred in connection with the construction, rehabilitation, or redevelopment of low and moderate-income housing. Predevelopment costs are expenses that are not administrative and are necessary before the project's construction stage. Proposed projects to be supported with these predevelopment funds must be eligible for DOH financial assistance.
- Criteria:* Assistance agreements between DOH and Predevelopment Loan program recipients provide that, if the borrower is not subject to a federal and/or state single audit, it shall be subject to a cost certification and an independent auditor's report at such time as required by DOH. An independent public accountant completes the applicable cost certification and independent auditor's report. The department uses the cost certification to close out the project and determine that funds were properly used.
- Good business practice dictates that there should be a time requirement for borrowers to submit a cost certification once the project is complete.
- Condition:* Predevelopment assistance agreements do not include time requirements for submitting a cost certification.
- Context:* DOH paid \$4,130,599 for predevelopment projects during the fiscal years ended June 30, 2018, 2019, and 2020.
- Effect:* The department's ability to close out a project and determine whether the recipient used funds properly is impaired if the recipient does not promptly submit its cost certification.
- Cause:* DOH has not considered the need to develop timeframes for recipients to submit cost certifications for predevelopment projects.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* The Department of Housing should add a deadline for contractors to submit cost certifications to its Predevelopment Loan program assistance agreements to allow for timely project closeouts. (See Recommendation 6.)
- Agency Response:* “DOH agrees with this finding. The Department of Housing's existing delinquent, pre-development portfolio has demonstrated inadequacies which are being addressed. For example, loan terms of 24 months will be increased to 36 months; additionally improved reporting requirements will

aide in documenting expenditure costs at more consistent intervals. A time requirement for submitting cost certifications to the Predevelopment Loan program will be included in assistance agreements.”

Lack of Monitoring of Lending Partners

Background: The Department of Housing established the Energy Conservation Loan Program 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 an agreement with a lending partner to administer and service the loans provided under the Energy Conservation Loan Program.

Criteria: Adequate internal controls would include properly monitoring that a service provider is using state funds for the intended purpose and ensuring that it is accurately distributing funds.

The DOH agreement with its lending partner requires the lending partner to submit annual financial audits, including single audits, if applicable. In addition, the lending partner is required to submit a projections report annually or more frequently, if requested.

Condition: DOH did not establish adequate procedures to monitor the lending partner that administers and services financial assistance provided under the Energy Conservation Loan Program.

- DOH has not implemented procedures to ensure that the lending partner is using funds in accordance with the agreement.
- DOH did not review the lending partner’s independent audit reports.
- DOH did not receive projections reports from its lending partner during the fiscal year ended June 30, 2019.

Context: As of June 30, 2020, there were 1,229 outstanding energy conservation loans, totaling \$6,727,700.

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

Cause: DOH has not implemented procedures to adequately monitor the lending partner.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2016 and 2017.

Recommendation: The Department of Housing should establish and implement procedures to monitor the activities of its lending partner that administers and services financial assistance provided under the Energy Conservation Loan Program. (See Recommendation 7.)

Agency Response: “DOH agrees with this 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 that the lending partners are fulfilling their contractual obligations.”

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 was incomplete.

Context: DOH expended \$274 million under the Affordable Housing and Housing Trust Fund programs during the fiscal years ended June 30, 2018, 2019, and 2020.

Effect: DOH has reduced assurance that unused bond funds are returned to their original funding source in a timely manner.

Cause: DECD tracks the amount of unused bond allocations for DOH. However, DECD neglected to track the bond allocations for the Affordable Housing Program and did not ensure that its tracking sheet for the Housing Trust Fund Program was current.

Prior Audit Finding: This finding has been previously reported in the last two DOH audit reports covering the fiscal years ended June 30, 2014 through 2017. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in five 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 8.)

Agency Response: “DOH agrees with this audit finding. In FY20 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 completed or cancelled bond-funded projects and to return unused funds.”

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 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. 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.

The State Accounting Manual provides that agencies should complete the confirmation and journalizing of bank deposits by the end of the day that agencies receive the deposit information through the Core-CT system. Each

agency is required to post deposits in Core-CT as soon as the confirmation process is complete or no later than four business days from the accounting date of the deposit. The four-day extension is intended solely for problematic deposits with bank issues that must be resolved. If there is no bank issue, agencies should record deposits the same day they appear on the pick list.

Condition: DOH allowed grantees to hold unexpended state funds for an excessive period. For the 15 projects reviewed, 13 were held for more than a year from the end of the project's budget period to the DOH issuance of the Certificate of Program Cost and State Funding (three of which were over two years). This resulted in the grantees holding \$238,178 in unexpended state funds.

Our review of 11 cash receipt transactions for these projects, totaling \$223,016, disclosed that DECD posted one deposit, totaling \$4,313, two days late.

Context: DOH issued 306 Certificates of Approved Program Cost and State Funding during the fiscal years ended June 30, 2018, 2019, and 2020. Grantees owed DOH \$380,592 from 75 projects.

Effect: Grantees received funding in excess of their needs and did not promptly return excess funds to DOH. In addition, DECD did not comply with requirements concerning the prompt posting of bank deposit information. This could have delayed the detection of bank deposit recording errors.

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. The department indicated that it does not take aggressive collection actions against housing authority/nonprofit grantees, in large part due to their limited cash flow.

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.

Administrative controls over deposits were inadequate.

Prior Audit Finding: This finding has been previously reported in the last two DOH audit reports covering the fiscal years ended June 30, 2014 through 2017. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in three 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 disbursing funds to grantees only for immediate needs and ensuring that grantees promptly refund any overpayments. The department should change its assistance agreements to require more timely refunds of unexpended state funds. In addition, the department should work with the Department of Economic and Community Development to ensure that it promptly posts deposits. (See Recommendation 9.)

Agency Response: “DOH partially agrees with this finding. DOH and DECD have improved this process. Reviews of financial audits and Certificates of Approved Program Costs are being issued in a timelier manner; however, workload priorities may continue to lead to some short delays. Grantees are now billed in the Core financial system reducing time in the collection of payments. However, the agency disagrees with the condition that those deposits are not completed daily. Due to the complexity of various types of fund coding, DOH has a waiver in place which allows additional days for deposit coding in CORE-CT.”

Auditors' Concluding

Comments: DOH did not have a waiver throughout the entire audited period. The department provided us with a waiver that covered July 2018 through September 2019 and another waiver that became effective in December 2020.

Adherence to Travel Policies

Background: The Department of Housing 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.

Criteria: As of February 9, 2011, Governor Dannel Malloy’s travel policy allowed out-of-state travel if the agency head approved the trip and it met one of the following criteria:

- Travel was to pursue economic development opportunities or secure significant outside funding for the state.
- Travel would enable the state employee or official to protect, promote, or gather information related to critical state policies and alternative means of gathering information when web-based or internet attendance is not available.
- The agency used non-state funds to cover the cost of the trip.

Section 5-141c-5 of the Regulations of State Agencies provides that official travel for which reimbursable expenses are payable begins at the time the

employee leaves the home, official duty station, or other official state location and ends when the employee returns to the home, official duty station, or other official state location at the conclusion of the trip, as appropriate. Agencies reimburse meal expenses in accordance with the rates authorized by the commissioner of Administrative Services with the approval of the Secretary of the Office of Policy and Management or the applicable statute or collective bargaining agreement. Employees are entitled to reimbursement for breakfast if they depart before 7:00 a.m. and dinner if they return after 7:00 p.m. Good business practice provides that an agency does not reimburse an employee for a meal expense if the seminar, meeting, or conference provides meals to the attendees.

Section 5-141c-8 of the Regulations of State Agencies provides that state expenses related to attendance at all seminars, meetings, or conferences shall receive prior approval for reimbursement by the agency head.

Condition: Our review of 15 travel expenditures, totaling \$9,894, disclosed the following:

- DOH did not approve one expenditure prior to travel.
- DOH reimbursed employees for unallowable meals in two instances. The department paid for meals when employees attended conferences that provided meals and for dinner when an employee returned prior to 7:00 p.m.

Context: DOH reported \$62,605 in out-of-state travel expenditures during the fiscal years ended June 30, 2018, 2019, and 2020.

Effect: There is reduced assurance that DOH only reimbursed properly approved and allowable expenditures. DOH overpaid travel expenditures by \$116 and did not preapprove \$36.

Cause: The errors were due to a lack of administrative oversight.

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 all travel expenses are necessary, reasonable, and approved prior to travel. (See Recommendation 10.)

Agency Response: “DOH agrees with this audit finding. DECD reviews travel expenditures to ensure travel expenditures are necessary, reasonable, and approved prior to travel and will continue to work with DOH to strengthen this process further.”

Incorrect Interest Calculations

Background: The Department of Housing 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.

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 Annual Comprehensive 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: We reviewed ten reported receivables and noted that DECD incorrectly calculated the accrued interest for four DOH loans during the tested fiscal year. As a result, DOH overstated interest receivables by \$7,373.

Context: DOH reported receivables for interest and late fees of \$12,682,129, \$15,884,514, and \$19,691,207 for the fiscal years ended June 30, 2018, 2019, and 2020, 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, DECD 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 two DOH audit reports covering the fiscal years ended June 30, 2014 through 2017. 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 in accordance with financial assistance agreements. (See Recommendation 11.)

Agency Response: “DOH agrees with this finding. The identified loans have been corrected as of FYE 2021. 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 have received training.”

Erroneous Loan Receivable Balances

Background: The Department of Housing 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.

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 Annual Comprehensive 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 agencies make corrections and reporting is accurate.

Agencies reporting loan receivables administered by third-party lending partners should ensure that reported amounts reflect loan receivable balances reported by the servicer.

Condition:

Our review of DOH receivable balances disclosed the following:

- DECD overstated DOH loan receivables reported to the Office of the State Comptroller by \$486,435 for the fiscal year ended June 30, 2018.
- DECD has not developed a sufficient method to estimate the amount of uncollectible DOH receivables. DECD only reports receivables as uncollectible for borrowers that are out of business. We noted that DECD did not include \$2.5 million of receivables in its estimate of uncollectible receivables for the fiscal year ended June 30, 2020. They were delinquent for more than one year and are likely uncollectible.
- 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 \$9,272,593 as of June 30, 2020. However, the lending partner reported a receivable balance of \$7,013,183, a difference of \$2,259,410.
- DECD did not properly reconcile 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 \$1,320,194 as of June 30, 2020. However, this amount did not reflect \$13,405 of principal repayments reported by the lending partner.

Context:

DOH reported loan receivables of \$368,748,997, \$422,727,581, and \$505,756,402 for the fiscal years ended June 30, 2018, 2019, and 2020, respectively.

DOH reported uncollectible receivables of \$766,407, \$766,407, and \$574,525 for the fiscal years ended June 30, 2018, 2019, and 2020, respectively.

Effect:

DOH is not properly accounting for or reporting loan balances. As a result, financial disclosures on the state's financial statements were inaccurate.

Cause:

DECD has not developed a sufficient method to estimate the amount of uncollectible receivables and has not devoted sufficient time to properly

reconcile principal balances to amounts reported by lending partners. Clerical mistakes and oversights caused other noted errors.

Prior Audit Finding: This finding has been previously reported in the last two DOH audit reports covering the fiscal years ended June 30, 2014 through 2017. In addition, prior to the establishment of DOH on July 1, 2013, the finding was reported in four 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 12.)

Agency Response: “DOH agrees with this finding. The Shoreline Resiliency Loan Fund reports have been revised; principal payments have been reapplied and are reconciled to the loan systems receivable balance. In FY 21 Energy Conservation Loan estimated uncollectible amounts have been adjusted to the receivable balance. DECD continues to review lending partner reports. In addition, staff is receiving additional training.”

Lack of Records Retention Schedule

Background: Effective July 1, 2013, Public Act 13-234 transferred various functions, powers, and duties related to housing from the Department of Economic and Community Development (DECD) to the newly created Department of Housing.

Criteria: Section 11-8a(b) of the General Statutes provides that the State Librarian may require each such state agency to submit retention schedules for all such books, records, papers, and documents for approval or may establish such retention schedules, based on the administrative need of retaining such information within agency offices or suitable records centers.

Condition: DOH has not developed a records retention schedule and has been using the DECD records retention schedule.

Effect: Without records retention schedules specific to housing programs, DOH has unclear retention requirements.

Cause: The department informed us that developing a records retention schedule has not been one of its top priorities.

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

Recommendation: The Department of Housing should create a records retention schedule that addresses issues specific to housing programs. (See Recommendation 13.)

Agency Response: “DOH disagrees with this audit finding. Upon the establishment of DOH, management chose to adopt the DECD Records Retention Schedules, which were originally derived from the Records Retention Schedules of the original Department of Housing. As such, these schedules adequately cover all relevant DOH records. There has not been any indication of a lack of records control, or concerns associated with records retention itself in prior audit reports.”

Auditors' Concluding

Comments: The Connecticut State Library informed us that DOH should develop its own schedule. In addition, DECD removed references to DOH programs from its records retention schedule after the department became a separate agency.

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 assessments, and provides a basis for differentiating among performance levels, thereby serving as a basis for annual salary increases.

Collective bargaining agreements provide that all employees shall receive an annual evaluation three months prior to their anniversary date.

Condition: Our review of the personnel files of five managers and five employees disclosed that DOH did not complete annual performance evaluations for three managers and four employees during the fiscal year ended June 30, 2018, and four managers and five employees during the fiscal year ended June 30, 2019.

Context: During the fiscal years ended June 30, 2018 and 2019, DOH had 16 managers and 40 employees who needed annual evaluations. At the time of our review, the annual evaluations for the fiscal year ended June 30, 2020, were not yet due.

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 to ensure the completion of performance evaluations.

Prior Audit Finding: This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2014 through 2017.

Recommendation: The Department of Housing should ensure that it performs annual evaluations for all managers and employees. (See Recommendation 14.)

Agency Response: “DOH agrees with this audit finding. DOH management is mindful of the importance in performing annual performance appraisals and will make every effort to ensure performance reviews are performed and completed annually for all DOH staffs going forward.”

Inadequate Controls over Compensatory Time

Criteria: Collective bargaining agreements permit agency employees to earn compensatory time with prior supervisory approval.

Condition: Our review of 22 instances of compensatory time for four employees during the fiscal years ended June 30, 2018, 2019, and 2020 disclosed the following:

- Request forms were not on hand in two instances.
- DOH did not preapprove compensatory time in two instances.

Context: During the audited period, four employees earned 78.5 hours of compensatory time.

Effect: There is reduced assurance that DOH properly authorized all compensatory time. Our review disclosed that DOH supervisors did not preapprove seven hours of compensatory time. In addition, DOH could not locate approval documentation for 11.5 hours of compensatory time.

Cause: Controls over time and attendance are inadequate.

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

Recommendation: The Department of Housing should ensure that it follows time and attendance requirements in collective bargaining agreements. (See Recommendation 15.)

Agency Response: “DOH agrees with this audit finding. It appears that this was an isolated incident, however, all managerial/supervisory staff have been reminded of their obligations associated with requests for compensatory time, the proper

sign off process for the earning of compensatory time, and the appropriate use of compensatory time.”

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 must have a properly secured storage area that restricts unauthorized access. The agency must secure items from theft, obsolescence, and loss due to deterioration.
- Agencies must complete a physical inventory of all property by June 30th of each fiscal year to ensure that property control records accurately reflect the inventory on hand.

Condition: We selected 27 inventory items during a physical inspection of the department’s assets to verify that they were properly documented in the inventory records. Our review disclosed the following:

- We could not find seven items in the location indicated in the inventory records.
- DOH did not store a digital camera valued at \$490 in a secure location.
- DOH did not conduct a physical inventory for the fiscal year ended June 30, 2020.

Context: The department reported \$201,140 and \$265,650 in real and personal property for the fiscal years ended June 30, 2018 and 2019, respectively. The department did not report an updated amount for the fiscal year ended June 30, 2020, since it did not complete a physical inventory.

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

For the fiscal year ended June 30, 2020, DOH inaccurately reported the value of property it owned to the State Comptroller because it did not conduct a physical inventory and update its inventory records.

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. In addition, the department did not complete the inventory inspection due to COVID-19.

Prior Audit Finding: This finding has been previously reported in the last two DOH audit reports covering the fiscal years ended June 30, 2014 through 2017. In addition, prior to the establishment of DOH, the finding was reported in two 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 16.)

Agency Response: “The agency agrees with this finding. DECD has established procedures to track and record the location of equipment in CORE. During the height of the pandemic at the end of FY 20, resources were unavailable to safely complete a physical asset inventory.”

Obligations Incurred Without Proper Accounting Commitments

Background: The Department of Housing 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 processing some expenditure transactions.

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, ensuring 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.

The State of Connecticut Agency Purchasing Card (P-Card) Coordinator Manual provides that an agency should establish a purchase order prior to using the P-Card in the new billing cycle.

Condition: Our review of 19 expenditure transactions disclosed that DOH committed funds after the receipt of goods or services in five expenditure transactions reviewed, two of which were P-Card expenditures.

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. In addition, P-Card expenditures were committed when purchases occurred rather than prior to the new billing cycle.

Prior Audit Finding: This finding has been previously reported in the last two DOH audit reports covering the fiscal years ended June 30, 2014 through 2017. In addition, prior to the establishment of DOH, the finding was reported in four 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 17.)

Agency Response: “DOH agrees with the audit finding. The revised P-Card process as of January 2022 provides an estimated expenditure for the year are added to the PO prior to the P-Card cycle. In FY 21, procedures were put in place which require that all commitments are on Contracts and POs 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.”

Incorrect Generally Accepted Accounting Principles (GAAP) Reports

Background: The Department of Housing 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.

Criteria: The Office of the State Comptroller requires state agencies to annually prepare and submit generally accepted accounting principles (GAAP) closing packages. Agency submissions contain financial information not

available on the state's Core-CT accounting system. The Office of the State Comptroller uses this information to prepare the state's financial statements. The State Accounting Manual and the State Comptroller's GAAP closing and reporting instructions stipulate the procedures for completing GAAP reporting forms. The State Comptroller includes reported amounts in the state's Annual Comprehensive Financial Report.

Condition: DOH understated its insured bank balance by \$19,809,140 and contractual obligations by \$44,470,644 for the fiscal year ended June 30, 2019. In addition, DOH understated its insured bank balance by \$23,206,034 and overstated its contractual obligations by \$4,095,591 for the fiscal year ended June 30, 2020.

Context: DOH reported a \$250,000 insured bank balance for the fiscal years ended June 30, 2019 and 2020. In addition, DOH reported contractual obligations of \$503,828,893 and \$374,616,549 for the fiscal years ended June 30, 2019 and 2020, respectively.

Effect: DOH did not comply with reporting requirements established by the Office of the State Comptroller.

Cause: DECD staff prepare some amounts reported in the GAAP closing package. Errors noted were due to clerical mistakes and the departments' misunderstanding of the Office of the State Comptroller's reporting instructions.

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 all required generally accepted accounting principles' reports are complete and accurate in accordance with the requirements of the Office of the State Comptroller. (See Recommendation 18.)

Agency Response: "DOH agrees with this audit finding. Appropriate insurance limits will be indicated on GAAP reports. The GAAP reporting form has been implemented by DOH in FY 20. The review process will be strengthened to ensure reports are complete and accurate."

Lack of a Complaint Log

Criteria: Good business practice dictates that an agency maintain a centralized log of complaints that includes a summary of the issues, an explanation of the resolution, and any other pertinent information.

Condition: DOH does not maintain a centralized log of complaints.

Context: Without a log, we could not determine how many complaints DOH received during the audited period.

Effect: There is increased risk that the department does not properly address complaints in a timely manner. In addition, management cannot monitor the timeliness of complaint resolutions.

Cause: DOH has not considered the need to establish a centralized log to document complaints because the relevant unit investigates complaints.

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

Recommendation: The Department of Housing should maintain a centralized log to track complaints and document their resolution. (See Recommendation 19.)

Agency Response: “DOH disagrees with this finding. All actual complaints against the Department or Department staff are addressed and dealt with immediately upon receipt.”

Auditors' Concluding

Comments: To improve accountability, DOH should document all complaints it receives and the action the department took to resolve them.

Failure to Delete Core-CT Access for Separated Employees

Background: The Department of Housing has a memorandum of understanding with the Department of Economic and Community (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 for four separated DOH employees, three of whom accessed Core-CT after their termination dates.

Context: During the fiscal years ended June 30, 2018, 2019, and 2020, nine DOH functional Core-CT users retired, transferred to another department or agency, or were terminated.

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 been previously reported in the last audit report covering the fiscal years ended June 30, 2016 and 2017.

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 20.)

Agency Response: "The agency agrees with this finding. Updated procedures for notification regarding terminated employees have been developed and communicated in Dec 2020. CORE does not permit DECD employees to perform this function for DOH, so rights have been granted to a DOH employee. The process and CORE status of all employees have been reviewed and addressed."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Department of Housing contained 14 recommendations. Three have been implemented or otherwise resolved and 11 have been repeated or restated with modifications during the current audit.

- 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. **This recommendation is being repeated.** (See **Recommendation 1.**)
- 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. **This recommendation is being repeated.** (See **Recommendation 2.**)
- 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. **This recommendation is being repeated.** (See **Recommendation 11.**)
- 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. **This recommendation has been resolved.**
- 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. **This recommendation is being repeated.** (See **Recommendation 7.**)
- 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. **This recommendation is being repeated.** (See **Recommendation 9.**)
- 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. **This recommendation is being repeated.** (See **Recommendation 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. **This recommendation has been resolved.**
- 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. **This recommendation is being repeated. (See Recommendation 12.)**
- 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. **This recommendation has been resolved.**
- The Department of Housing should ensure that it performs annual evaluations for all managers and employees. **This recommendation is being repeated. (See Recommendation 14.)**
- 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. **This recommendation is being repeated. (See Recommendation 17.)**
- 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. **This recommendation is being repeated. (See Recommendation 16.)**
- The Department of Housing should work with the Department of Economic and Community Development to immediately deactivate the Core-CT access of separated employees. **This recommendation is being repeated. (See Recommendation 20.)**

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 only disburse funds during approved budget periods. The department should retain all supporting documentation in accordance with the State Librarian's records retention requirements and ensure that recipients follow assistance agreement requirements.**

The department should adopt policies stipulating deadlines for completing monitoring and issuing monitoring letters and certificates of completion.

Comment:

A review of housing and community development projects identified missing payment documents, mortgage notes, an eligibility review form, and a HUD Request for Release of Funds approval letter. In addition, DOH spent \$1,053,012 outside of the approved budget period and did not promptly monitor or close out projects.

- 2. The Department of Housing and its Rental Assistance Program vendor should ensure that they promptly complete reexaminations and properly calculate and support payments. In addition, the department should ensure that the utility allowance schedule reflects current rates.**

Comment:

Our review of 15 Rental Assistance Program payments noted that DOH did not have adequate supporting documentation in two cases, did not complete an annual reexamination in one case, and made \$2,689 in improper payments in two cases. In addition, the department has not updated the utility allowance schedule since 2012.

- 3. The Department of Housing should work with its vendor to correct the underlying issues that cause repeat errors and hold the vendor accountable for reducing error rates. In addition, the department should perform a supervisory quality control review to ensure its vendor is complying with program requirements.**

Comment:

DOH does not hold its vendor accountable for correcting repeat errors. In addition, DOH did not complete a supervisory quality control review for two of the audited years.

- 4. For projects it funds, the Department of Housing should develop a system to track developers and contractors and their ability to complete projects on time and without cost overruns. The department should avoid funding projects that involve contractors with a history of not successfully completing projects.**

The department should develop policies and procedures to provide guidance on its administration of delayed projects to reduce the need for additional funding. In addition, the department should develop policies and procedures on proceeding with projects that lose investor funding.

Comment:

Due to construction delays and cost overruns, DOH awarded a \$1,874,917 National Housing Trust Fund grant to complete a project that had received prior DOH funding.

- 5. The Department of Housing should adequately document how a location meets eligibility requirements to be an incentive housing zone and the rationale for the department's approval of the location. The department also should ensure that it obtains required submissions from municipalities.**

Comment:

DOH did not adequately document how an incentive housing zone (IHZ) location met eligibility requirements and why the department approved the location. In addition, DOH did not revoke the town's IHZ certification or require repayment of grants for failure to submit an annual application for certification.

- 6. The Department of Housing should add a deadline for contractors to submit cost certifications to its Predevelopment Loan program assistance agreements to allow for timely project closeouts.**

Comment:

Predevelopment assistance agreements do not include time requirements for submitting a cost certification.

- 7. The Department of Housing should establish and implement procedures to monitor the activities of its lending partner that administers and services financial assistance provided under the Energy Conservation Loan Program.**

Comment:

DOH did not establish adequate procedures to monitor the lending partner that administers and services financial assistance provided under the Energy Conservation Loan Program. DOH has not implemented procedures to ensure that the lending partner is using funds in accordance with the agreement. In addition, DOH did not review the lending partner's

independent audit reports and did not receive projections reports from its lending partner during the fiscal year ended June 30, 2019.

- 8. 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 was incomplete.

- 9. The Department of Housing should improve its cash management procedures by disbursing funds to grantees only for immediate needs and ensuring that grantees promptly refund any overpayments. The department should change its assistance agreements to require more timely refunds of unexpended state funds. In addition, the department should work with the Department of Economic and Community Development to ensure that it promptly posts deposits.**

Comment:

DOH allowed grantees to hold unexpended state funds for an excessive period. For 15 projects reviewed, 13 grantees held \$238,178 in unexpended state funds for more than a year.

Our review of 11 cash receipt transactions for these projects disclosed that the Department of Economic and Community Development (DECD) posted one \$4,313 deposit two days late.

- 10. The Department of Housing should work with the Department of Economic and Community Development to ensure that all travel expenses are necessary, reasonable, and approved prior to travel.**

Comment:

Our review of 15 travel expenditures disclosed that DOH did not approve one expenditure prior to travel and reimbursed employees for unallowable meals in two instances.

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

Comment:

We reviewed ten reported receivables and noted that DECD incorrectly calculated the accrued interest for four DOH loans during the tested fiscal year. As a result, DOH overstated interest receivables by \$7,373.

12. 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:

The Department of Economic and Community Development (DECD) overstated DOH loan receivables reported to the Office of the State Comptroller by \$486,435 for the fiscal year ended June 30, 2018. In addition, we noted that DECD did not include \$2.5 million of receivables for the fiscal year ended June 30, 2020, that were delinquent for more than one year, and are likely uncollectible, in its estimate of uncollectible receivables.

DECD did not prepare a reconciliation of receivable balances for the DOH Energy Conservation Loan Program to amounts reported by the lending partner and did not properly reconcile receivable balances for the DOH Shoreline Resiliency Loan Fund.

13. The Department of Housing should create a records retention schedule that addresses issues specific to housing programs.

Comment:

DOH has not developed a records retention schedule and has been using the Department of Economic and Community Development's records retention schedule.

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

Comment:

Our review of the personnel files of five managers and five employees disclosed that DOH did not complete annual performance evaluations for three managers and four employees during the fiscal year ended June 30, 2018, and four managers and five employees during the fiscal year ended June 30, 2019.

15. The Department of Housing should ensure that it follows time and attendance requirements in collective bargaining agreements.

Comment:

Our review disclosed that DOH supervisors did not preapprove two instances of compensatory time, and the department could not locate approval documentation in two instances.

16. 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 accurately reflect the inventory on hand. We noted seven items in different locations than indicated in the inventory records and one item that was not stored in a secure location. In addition, DOH did not conduct a physical inventory for the fiscal year ended June 30, 2020.

17. 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 19 expenditure transactions disclosed that DOH committed funds after the receipt of goods or services in five expenditure transactions reviewed.

18. The Department of Housing should work with the Department of Economic and Community Development to ensure that all required generally accepted accounting principles' reports are complete and accurate in accordance with the requirements of the Office of the State Comptroller.

Comment:

DOH understated its insured bank balance by \$19,809,140 and contractual obligations by \$44,470,644 for the fiscal year ended June 30, 2019. In addition, DOH understated its insured bank balance by \$23,206,034 and overstated its contractual obligations by \$4,095,591 for the fiscal year ended June 30, 2020.

19. The Department of Housing should maintain a centralized log to track complaints and document their resolution.

Comment:

DOH does not maintain a centralized log of complaints.

20. 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:

The Department of Economic and Community Development (DECD) did not immediately deactivate Core-CT access for four separated DOH employees, three of whom accessed Core-CT after their termination date.

ACKNOWLEDGMENTS

The Auditors of Public Accounts 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.

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

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