



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of Community Affairs  
Division of Housing and Community Resources  
Selected Programs**

July 1, 2010 to July 31, 2013

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**Stephen M. Eells  
State Auditor**

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Enclosed is our report on the audit of the Department of Community Affairs, Division of Housing and Community Resources, Selected Programs for the period of July 1, 2010 to July 31, 2013. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
December 5, 2013

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### ***Scope***

We have completed an audit of the Department of Community Affairs (DCA), Division of Housing and Community Resources for the period July 1, 2010 to July 31, 2013. Our audit included financial activities accounted for in the state's General Fund. Our scope was limited to the housing assistance programs and the Low Income Home Energy Assistance Program (LIHEAP). Annual expenditures during the audit period were \$254 million for the housing assistance programs and \$123 million for the LIHEAP. We also evaluated select general controls related to the Housing Pro System encompassing security management, logical access, change management, contingency planning, and physical security. The Housing Pro System is a proprietary software the DCA utilizes to process information and track payments for its housing assistance programs. The primary responsibility of the division is to strengthen and revitalize communities through the delivery of affordable housing, supportive services, and the provision of financial and technical assistance.

### ***Objectives***

The objectives of our audit were to determine whether adequate controls were in place at the DCA to ensure the propriety of the program costs for the housing assistance programs and the Low Income Home Energy Assistance Program. In addition, we determined the adequacy of select general controls over the Housing Pro System including security management, logical access, change management, contingency planning, and physical security.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

### ***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, the administrative code, and policies of the DCA. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also reviewed financial trends and interviewed division personnel to obtain an understanding of the programs and the internal controls. Our review of the Housing Pro System was designed to provide a conclusion on the general controls in place.

Statistical and non-statistical sampling approaches were used. Our samples of financial transactions were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted and transactions were randomly and judgmentally selected for testing.

### *Conclusions*

We found adequate controls were in place at the DCA to ensure the propriety of the program costs for the housing assistance programs and the LIHEAP. In addition, we found adequate select general controls over the Housing Pro System. In making these determinations, we noted certain internal control weaknesses meriting management's attention.

## **State Rental Assistance Program Misclassification**

### **Misclassification of payment categories resulted in the incorrect calculation of SRAP payments.**

The Division of Housing and Community Resources (division) misclassified the disabled status of head of households by placing them in the incorrect program, causing a miscalculation of State Rental Assistance Program (SRAP) payments. The division processed 3,940 SRAP cases on April 1, 2013. We sampled 201 of 1,112 SRAP cases at five field offices for this time period disclosing 40 cases (20%) that were classified in error. The New Jersey Administrative Code states that disabled head of households are required to pay 25 percent of their adjusted monthly income as their portion of rent as opposed to the 30 percent that nondisabled head of households must pay. The division inputs applicant information into the Housing Pro System which calculates the housing payment. Of the 40 cases with errors, 38 had a disabled head of household incorrectly classified into a nondisabled program. As a result, the state underpaid its share of the rent and the tenants contributed more than required by the administrative code. The two remaining cases classified a nondisabled head of household as disabled and the opposite effect occurred.

### **Recommendation**

We recommend the division make improvements to its classification process to ensure proper designations are made.

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## **SRAP Participation Limitation**

### **SRAP participation exceeded NJAC time limitations.**

Our analysis of the data from the Housing Pro System disclosed 65 percent of recipients of State Rental Assistance Program (SRAP) benefits, excluding elderly, disabled, and project-based recipients, remained on the program beyond the established limitation periods. The New Jersey Administrative Code (NJAC) states that the rental subsidy under the SRAP shall be for up to five years, while two one-year extensions can be granted for extenuating circumstances. We tested 100 percent of the SRAP recipients, excluding elderly, disabled, and project-based recipients, and found 595 of 909 cases exceeded the programs' five year limit, with monthly payments totaling \$605,000. Of the 595 cases, 64 received benefits for over seven years and had monthly payments of \$61,000. The division could not provide us with sufficient evidence supporting any extensions beyond the five-year period. According to division personnel, cases over the time limit have not been terminated because of the state of the economy. However, keeping recipients on the program beyond the length of time established by the NJAC limits the number of benefits offered to other eligible households.

### **Recommendation**

We recommend the division review the program's administrative code for possible changes that could benefit both the recipients and the program.

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### **Wage Matches**

**Additional wage matches should be performed to verify the income of housing program recipients.**

For the month of April 2013, 24,839 recipients received housing assistance. Our data analysis of wage and hour reports and the Housing Pro System database revealed 6,058 recipient matches of which 2,721 recipients may have underreported their income in a housing assistance program. In our analysis, we took a recipient's quarterly wages from the wage and hour report and annualized them, then compared them to 110 percent of the wages reported by the recipient to the programs. Any cases where the annualized wages were greater were considered to be instances of possible underreported income.

According to department policy, recipients of housing assistance program benefits are required to report any income change during the year, as well as recertify their income annually. Although the division does verify wages with the wage and hour report when a household applies for the housing assistance programs and at the annual recertification, it does not perform any interim matches. As a result, it is possible the division was not aware of a significant number of participants in the housing assistance programs who, because of an increase in their income, should have had their contribution levels increased during the year or should have been eliminated from the program.

Subsequent to our testing, the division began receiving income discrepancy reports from the federal government. Based on these reports, the division now investigates possible underreporting of income and takes appropriate action.

### **Recommendation**

The division should continue to utilize the federal reports and investigate cases as needed.

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## **Office of the Attorney General Fraud Referrals**

**The division should send potential fraud cases to the Office of the Attorney General for possible prosecution.**

The division does not send potential fraud cases to the Office of the Attorney General for possible prosecution because they state their cases have not been prosecuted in the past. Instead, the division terminates the cases and reports all overpayments to the state's Set-Off of Individual Liability (SOIL) collection program. The division should not be responsible for making the decision not to prosecute cases. The Attorney General's office should be given the opportunity to review cases and take appropriate action. We attempted to secure a list of cases that could have been sent to the Attorney General's office, but terminated cases are not coded in a fashion that can be easily identified. Possible prosecution could increase collection rates and deter future fraud.

### **Recommendation**

We recommend the division begin identifying potential fraud cases and forwarding them to the Office of the Attorney General.

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## **Business Continuity and Data Recovery**

**The updated business continuity plan should be tested.**

The department's information technology office has not tested its business continuity plan for the Housing Pro System. However, the office is currently updating the plan. Industry best practices require periodic testing of the business continuity plan to ensure adequate controls are in place and functioning properly to minimize the loss of data if a disruption were to occur. Testing is also important because it measures the feasibility of the plan and identifies any modifications that may be required because of noted weaknesses.

### **Recommendation**

We recommend the office periodically test the business continuity plan once the updated plan is finalized.

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## **Logical Access**

### **Control over the logical access of data needs to be strengthened.**

Our review of the Housing Pro System's logical access disclosed issues that compromise system compliance with information technology industry standards. The system does not require passwords to be complex in nature, log off automatically due to inactivity, or lock out users due to multiple incorrect logon attempts. Industry password standards require certain measures be put into place to ensure the integrity of data and control user access. It should be noted the division utilizes a third party vendor to develop its system to store data, prepare payments, and submit information to the federal government for its housing assistance programs. The division is responsible for managing user access to the system by adding and removing users and maintaining passwords.

In addition, it was noted in our review of the 267 system users that 7 logons were still active for users who had separated from employment. Industry best practices state that a policy and procedure should be in place to ensure timely removal of system access when a user separates from service to ensure that risks are minimized. While the division has a formal procedure to remove users, supervisors failed to inform IT administration and these users continued to have access. This may allow unauthorized users continued access to the application. However, our tests did not reveal any instance where a separated user accessed the system after separation.

### **Recommendation**

We recommend the division implement a policy to improve password security such as requiring passwords be changed periodically or adding special characters to passwords. Additionally, the division should enforce established procedures to remove separated users.



## **Observation**

### **LIHEAP Wage Match**

The Low Income Home Energy Assistance Program (LIHEAP) provides a one-time energy benefit based on a matrix consisting of income and other factors. Verification of eligibility for the LIHEAP is complicated by the program's reliance on recipient income at a particular point in time. According to department policy, applicants for LIHEAP benefits are required to show proof of income only for the month prior to the application date in order to be eligible for energy assistance. Eligibility for the program is determined by non-profit agencies working for the division or is granted automatically to all recipients of Food Stamp benefits. The program does not verify all sources of income of LIHEAP applicants at the time of application. The division does not use a wage database to verify income eligibility of LIHEAP applicants at the time of application or subsequent to acceptance into the program.

Our data analysis of wage and hour reports and the energy assistance database at the DCA revealed 15,674 of 262,000 LIHEAP recipients may have underreported their income. This analysis was designed to assess the risk inherent in the LIHEAP income verification process. It was performed by taking a recipient's quarterly wages from the wage and hour report for the quarter ending September 30, 2012, annualizing them, and comparing them to 110 percent of the reported wages by the recipient. Any cases where the annualized wages were greater were considered to be instances of possible underreported income. As a result, it is possible the division provided LIHEAP recipients with greater benefits than they were entitled. An additional analysis showed that 192,000 (74%) of the 2013 heating season recipients had also received the benefit in the 2012 heating season.

The division should determine if it is more cost-effective to test for eligibility before or after LIHEAP benefits have been granted and implement an appropriate testing procedure. For example, consideration should be given to requiring additional documentation from those repeat applicants whose incomes exceed a particular threshold based on a match with the wage and hour report before eligibility is approved for the next program year.



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December 2, 2013

Mr. Gregory Pica, Assistant State Auditor  
New Jersey Legislature  
Office of Legislative Services  
Office of the State Auditor  
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Dear Mr. Pica;

Please accept this letter in response to the Office of the State Auditor's (OSA) November 4, 2013 audit report concerning the New Jersey Department of Community Affairs' (DCA) Housing and Community Resources Programs.

DCA is pleased that OSA's audit found adequate controls were in place to determine the propriety of program costs for the housing assistance programs and Low Income Heating and Energy Assistance Programs (LIHEAP). OSA's audit also concluded that DCA has adequate general controls over the Housing Pro System, which is an IT system that is used by DCA's housing assistance programs.

Please find below a response to the recommendations and the observation found in the report.

### State Rental Assistance Program (SRAP) Misclassification

OSA Recommendation: We recommend the division make improvements to its classification process to ensure proper designations are made.

DCA Response: DCA's two Housing Assistance Programs (Section 8 and SRAP) provide housing subsidies to over 21,000 recipients annually. SRAP provides recipients with approximately \$38 million in annual housing subsidies. We note that the 38 misclassifications that OSA identified in its audit amount to approximately \$22,298 annually in housing subsidies or just 1 percent of the total \$1,940,784 that OSA sampled as part of its audit.



Professional standards dictate that a sound system of internal control is one that is designed to provide reasonable, not absolute, assurances concerning the achievement of the entity's objectives. Accordingly, DCA does have adequate controls in place to ensure the propriety of its housing assistance programs, as confirmed by OSA's audit report and further evidenced by the de minimis error rate of 1 percent.

Nonetheless, we recognize the potential financial impact that the SRAP misclassifications may have on the program participants themselves. Therefore, DCA accepts the recommendation and will perform additional quality assurance reviews to ensure the accuracy of SRAP classifications.

### SRAP Participation Limitation

OSA Recommendation: We recommend the division review the program's administrative code for possible changes that could benefit both the recipients and the program.

DCA Response: N.J.S.A. §52:27D-287 provides, "The Department of Community Affairs shall establish maximum lengths of terms of eligibility for temporary rental assistance...." Pursuant to DCA's regulations, a rental subsidy under the State Rental Assistance program can last for up to five years. However, the program may provide a two-year extension based on extenuating circumstances.

DCA's review concerning the length of time that program participants receive state rental subsidies revealed that as of December 31<sup>st</sup>, 2013, 300 participants will have received the subsidy beyond 5 years. The extension of subsidy payments is provided in extenuating circumstances that are dictated by need. In some instances, DCA provided OSA with documentation memorializing the extension of the subsidy beyond the initial 5 year term (see Exhibit 1). We note that DCA's regulations expressly authorize a two-year extension of the rental subsidy. Therefore, DCA will continue to provide such extensions using a needs-based approach.

With respect to extensions beyond the 7 year limit, DCA's review revealed that a mere 34 participants received the subsidy beyond 7 seven years (0.8 percent of SRAP's total participants) as of December 31, 2013. In making such a determination to extend a subsidy beyond seven years, DCA is constantly challenged with balancing the human needs of the individual who may need to continue to receive the subsidy with the limits imposed by its own regulations.

Notwithstanding the small number of participants that may exceed the seven year limit as of December 31, 2013, DCA will review its regulations to determine if any changes are warranted.

### Wage Matches

OSA Recommendation: The division should continue to utilize the federal reports and investigate cases as needed.

DCA Response: To effectively mitigate the risk associated with housing assistance recipients underreporting their income, DCA's Division of Housing and Community Resources utilizes HUD's Enterprise Income Verification (EIV) System. Among other things, HUD's EIV System provides

reports detailing program participants' income. The Division thoroughly and expeditiously identifies any discrepancies between the income reported by applicants and the income listed on the EIV reports. Consequently, DCA's utilization of the EIV System has and will continue to provide the Division with timely, relevant income data that the Division will act upon, where appropriate.

#### Office of the Attorney General Fraud Referrals

OSA Recommendation: We recommend the division begin identifying potential fraud cases and forwarding them to the Office of the Attorney General.

DCA Response: DCA does identify potential and known fraud cases and refers such cases to the Office of the Attorney General regularly. However, DCA will develop an administrative procedure that formalizes the Division's actions concerning referrals to the Office of the Attorney General.

#### Business Continuity and Data Recovery

OSA Recommendation: We recommend the office periodically test the business continuity plan once the updated plan is finalized.

DCA Response: DCA's contractual agreement with the proprietor of the Housing System Pro information technology system includes a business continuity and data recovery solution. Such solution, called DataCheck, is designed to make a nightly backup of the entire system and allow DCA to access the most recently backed-up copy of the system from any location over a secure and protected website. Moreover, DataCheck confirms that a successful backup was made each night and notifies DCA in the event that a failure occurs. DataCheck maintains seven copies of the back-up data, with DCA able to access the most recent back-up. Within the last two months, staff at Housing System Pro have reviewed DCA's backup and manually confirmed that it is working effectively. DCA will continue to have Housing System Pro test its back-up capabilities. If necessary, DCA will develop additional mechanisms to test the plan.

OSA Recommendation: We recommend the division implement a policy to improve password security such as requiring passwords be changed periodically or adding special characters to passwords. Additionally, the division should enforce established procedures to remove separated users.

DCA Response: As noted in OSA's report, the Division currently has formal procedures that mandate the removal of users and the periodic changing of passwords. Nevertheless, the Division will address the controls over logical access with the proprietor of the Housing Pro System to ensure that the controls conform to industry standards.

#### OSA Observation – LIHEAP Wage Match

DCA Response: Although DCA accepts the spirit in which the OSA observation is presented, we question some of the assumptions used in OSA's analysis. DCA's independent review of LIHEAP participants' reported income in comparison to each participants' annual wages (as reported through the wage and hour reports maintained by the state Department of Labor and Workforce Development) revealed that only 0.7 percent of the 287,810 PY 2012 (October 1, 2011 through September 30, 2012)

LIHEAP recipients may have underreported their incomes. Of those who may have underreported their incomes, nearly half were submitted to DCA from the state Department of Human Services – Division of Family Development as automatically eligible in accordance with provisions of N.J.A.C. §5:49-3.1.

To mitigate the risks associated with program recipients underreporting their income, DCA employs several layers of controls that are designed to detect and prevent abuse. Specifically, DCA has program monitors who conduct periodic reviews of LIHEAP agencies' policies and procedures concerning participant income and related documentation, among other things.

Moreover, DCA procured the independent accounting firm of Withum, Smith and Brown (WSB) to review both fiscal and programmatic areas of LIHEAP agencies at least once every 3 years. Such reviews are conducted using a risk-based approach and include agreed upon procedures for testing income eligibility and related documentation. If any unreasonable or unsubstantiated documentation is identified during WSB's reviews, DCA resolves such issues appropriately and expeditiously. In addition, if systemic issues exist concerning an agency's fiscal and programmatic practices, DCA mandates that the agency in question take corrective actions immediately. In some instances, DCA has terminated agencies from the LIHEAP program for their failure to implement corrective actions timely.

Lastly, depending on the amount of federal grant funds awarded, LIHEAP agencies are subject to A-133 annual audit requirements. Accordingly, DCA thoroughly reviews annual audits submitted by its sub-recipient agencies and resolves any noted control deficiencies or questioned costs appropriately and expeditiously.

Consequently, we feel that DCA's system of internal control is designed to ensure reasonable assurance that LIHEAP's program participants are eligible for benefit based on reported income. If determined to be feasible and cost effective, DCA will consider implementing additional controls that may augment its ability to detect and prevent potential underreporting of income.

As described above and as the audit report concluded, DCA has been diligent in discharging its responsibilities to implement a system of internal control that provides reasonable assurances that its Housing Assistance and LIHEAP Programs are fulfilling their statutory purposes. We appreciate the spirit in which your recommendations are presented and are steadfast in our commitment to continually improve program operations. If you have any questions concerning the above, please do not hesitate to contact my office at (609) 292-6420.

Sincerely,



Richard E. Constable, III  
Commissioner