Department of Community Affairs
Selected Programs

July 1, 1996 to May 31, 1998
The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Department of Community Affairs, Selected Programs for the period July 1, 1996 to May 31, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
July 9, 1998
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Department of Community Affairs  
Selected Programs  

**Scope**

We have completed an audit of the Department of Community Affairs, selected programs for the period July 1, 1996 to May 31, 1998. The selected programs included the Bureau of Housing Inspection, Bureau of Uniform Construction Code, Division of Fire Safety, Division of Housing and Community Resources, Bureau of Boarding Home Inspection and Division of Codes and Standards. Our audit included financial activities accounted for in the state’s General Fund and the following trust and special revenue funds: New Home Warranty Security Fund, Boarding House Rental Assistance Fund and Volunteer Emergency Service Organizations Loan Fund. Annual expenditures of the divisions/bureaus under review were approximately $220 million.

The Bureau of Housing Inspection inspects, registers and issues appropriate certificates of registration and occupancy for hotels, motels and multiple dwellings. The Bureau of Uniform Construction Code ensures that all buildings are constructed to meet uniform standards. The Division of Fire Safety ensures compliance with the Uniform Fire Safety Act through inspection, training and monitoring. The prime responsibility of the Division of Housing and Community Resources is to create affordable housing, prevent homelessness, fund emergency shelters for the homeless and preserve neighborhoods. The Bureau of Boarding Home Inspection provides for the health, safety and welfare for those who reside in rooming and boarding houses in the state. The Division of Codes and Standards is responsible for the adoption and enforcement of regulations governing building construction and safety.
Annual revenues of the divisions/bureaus under audit were approximately $200 million and the major components of revenue were federal section eight housing assistance, and inspection, registration and licensing fees.

**Objectives**

The objectives of our audit were to determine whether financial transactions were related to the department’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior reports.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, 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, administrative code, circular letters promulgated by the State Comptroller, and policies of the department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were stratified and large dollar transactions were sampled. Other transactions were randomly and judgmentally selected.

To ascertain the status of findings included in our prior reports, we identified corrective action, if any, taken by the department and walked through the system to determine if the corrective action was effective.
Conclusions

We found that the financial transactions included in our testing were related to the department’s programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

We also found that the department has resolved the significant issues noted in our prior reports except for matters related to inspectors’ timekeeping. This issue has been updated and restated in our current report.
Inspectors’ Timekeeping

The Department of Community Affairs employs over 100 inspectors and sub-code officials. Their duties involve field visits to multiple dwellings, boarding homes, residences, and commercial businesses. Inspections are performed for fire safety, building code compliance and elevator maintenance. The inspectors are required to prepare detailed weekly logs showing the location and type of inspection. They are also required to call the main office twice daily to report their location, once in the morning and again in the afternoon. This information is recorded on the daily call-in sheet. The calls are supposed to be made using a state issued phone credit card. This results in three records (weekly logs, credit card phone bills, and call-in sheets) that document the activity of the field inspection staff and provide a record of the location of the inspectors.

As noted in prior audit reports issued by our office, inspectors did not always make calls in the morning and the afternoon to the main office using the phone credit card, as required. We sampled the time and phone records of 39 inspectors for a total of 470 days. Since inspectors are required to call in twice a day, we reviewed the phone bills for evidence of 940 calls. We found that 149 calls were not made with the state issued credit card and therefore there was no proof of where the call was placed.

A comparison of the weekly logs to the phone bills disclosed that inspectors are not always calling from the locations documented on their weekly logs. We further noted that the call-in sheet did not correspond to the phone bill. We noted 121 exceptions regarding comparisons of the three sources of documentation available.

Inspectors are required to work seven hour days. According to the department’s procedure, if travel in excess of one hour is required to the first inspection site, the employee is required to arrive at the first site no later than 9:30 a.m. and may leave no earlier than 4:30 p.m. We sampled time records for 21 days and
found eleven cases where the inspector arrived at the first inspection site between 10:20 a.m. and 1:10 p.m. On the 21 days tested, inspectors performed inspections for an average of four hours per day.

In a number of instances, the mileage reported on the inspectors’ weekly log did not agree with our estimates of the mileage. In cases involving three inspectors and 18 trips, the mileage recorded on the weekly log was different than the estimated mileage to the inspection site. One inspector reported different mileage for twelve days ranging from 40 miles to 110 miles to go to the same inspection site. The actual mileage should have been approximately 90 miles. While this inspector’s weekly log reported twelve days of inspection visits, information received from the inspection site supported that only ten days of inspections were performed.

The work logs include entries for noninspection activities. We noted that inspectors occasionally deliver forms that could be sent in the mail. In one example, we noted six hours (over two days) were spent to drop off a registration card.

We also noted reinspections (for correction of violations) taking three and one half hours to seven hours. Other similar reinspections were completed in considerably less time. As an example of the actual time required for a reinspection, one inspector performed seven reinspections in one day.

We found no evidence of adequate supervisory review of inspectors’ weekly logs, phone bills, and daily call-in sheets. The inspector logs are not reviewed for compliance with the seven hour workday requirement. Adequate supervisory review of these documents should have found these discrepancies prior to our audit.

**Recommendation**

We recommend that supervisors review inspectors’ documentation that supports the work performed. Supervisors should evaluate the reasonableness of time spent by the inspectors for all required duties. Also, the supervisors and inspectors should be responsible for
keeping accurate records. Disciplinary action should be taken against employees found to have submitted inaccurate time records. Furthermore, when registration forms need to be delivered, they should be mailed.

**Auditee’s Response**

We agree with this recommendation in part. Supervisors will review and monitor inspectors’ reports more carefully. Inspectors will be instructed of the critical nature of the accurate reporting of facts concerning mileage reported and inspectors’ weekly logs. Employees will be reminded that disciplinary actions will be taken against employees who submit inaccurate time records. In some cases, disciplinary actions have already occurred.

We disagree that registration forms should be mailed in all cases. Registration forms are always mailed initially. After several attempts by mail, if the registrant does not respond, an inspector will attempt to deliver them. This is done in an effort to maintain and increase revenue collection.

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**Mileage Reimbursement**

The Department of Community Affairs employs various field staff. Most of them are assigned state vehicles to use while performing their duties. If a car is unavailable, the employee must use their own car and submit a travel voucher to receive a reimbursement for expenses at a rate of $0.25 per mile.

We conducted a review of 38 travel vouchers for fiscal year 1997 and found 12 cases of overreporting of mileage. Using computer software to determine mileage from one location to another, we noted significant differences in reported versus computed mileage. Two employees’ travel vouchers were tested in detail and recalculated. They each received $500 to $600 per month in mileage reimbursement. The reported mileage exceeded our estimates by as much as 300 to 500 miles or $75 to $125 per month. In a few instances, employees reported and were paid for mileage on days that their leave records show them to have...
been on vacation. Proper supervisory review should detect these errors.

The reason for some additional mileage was that the employee may take a longer route to avoid traffic or because it is faster. Treasury Circular Letter 94-12 states that, “all travel shall be by the most direct, economical and usually traveled route” and that if “a person travels by an indirect route for personal convenience, the extra expense shall be borne by the individual.”

During fiscal year 1997 eight employees of the Division of Codes and Standards each received over $5,000 in mileage reimbursement, six of which averaged over 2,000 miles per month in reimbursable miles. Based on a list of state vehicles assigned to the department, 25 state vehicles were utilized below the Department of the Treasury’s requirement of 1,200 miles per month. By reassigning state vehicles to employees with the highest usage, the department could reduce its mileage reimbursement costs.

**Recommendation**

We recommend that the department comply with Treasury Circular Letter 94-12 and that supervisors review travel vouchers prior to approval. Mileage should be verified on a test basis and location of trip should be supported by inspection reports or reason for travel.

**Auditee’s Response**

We agree with this recommendation. Supervisors will review travel vouchers more closely for compliance with Treasury Circular Letter 94-12 and will verify mileage reported on a test basis.

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**Rental Assistance Program**

The department disburses over $107 million annually in rental assistance, primarily Section 8 Tenant-Based Assistance Program funding, to low income families. The Section 8 Tenant-Based Assistance Program administered by the department is funded by the United States Department of Housing and Urban Develop-
ment (HUD). The purpose of the program is to make housing available to low-income households in the private rental market. Households that meet eligibility requirements normally pay no more than 30 percent of their adjusted monthly income towards their monthly rent and utility costs. The program pays the balance of the rent directly to the landlord of the property.

Accounts Receivable
The department is owed $4.2 million in receivables from 6,200 landlords and tenants. The receivables are due because landlords were paid after leases were terminated or tenants committed damages to a rental unit or misreported income. According to State Treasury Circular Letter No. 94-40, “…each agency shall make every effort to effect collection of all of its accounts receivable.” The department’s collection system in place during our audit was not adequate.

According to federal regulations, the department must first attempt to collect from landlords before its $2.1 million landlord receivable can be written off as uncollectible. Once the receivable is written off, the department may be reimbursed $2.1 million from HUD. The absence of an adequate collection system prevents the department from determining whether its landlord receivable is uncollectible.

The department failed to recover $643,000 due from 626 active landlords who continue to receive rental assistance checks. Of that amount, there is $87,000 due from 11 active landlords who each receive over $100,000 of rental income from the state annually. During our field work, the department started to recover from active landlords by offsetting subsequent rental assistance payments.

We also noted that the department makes greater effort to collect debts from tenants with low incomes than from landlords. It should be expected that a greater collection outcome is possible from landlords with income producing properties than tenants with low incomes. The department should prioritize collection efforts based on a debtor’s financial ability.
There is a lack of proper segregation of duties.

Internal Controls
The payment section processes all rent checks to landlords and also receives approximately 75 rental checks monthly that were returned voluntarily or were undeliverable by the post office. Proper internal control requires that the payment section not have access to returned checks. Generally, overpayments are made to landlords because lease cancellations were processed and backdated after unearned rental checks were already issued. There is no accountability to ensure that all lease cancellations are reviewed for landlord overpayments.

The same person maintains receivable records and processes $700,000 receivable receipts annually. Calculation of scheduled offset amounts due from landlords against rent checks issued are not adequately documented. Internal controls require these duties should be segregated and adequate records maintained.

Postage costs could be reduced $15,000 a year.

Postage Savings
There are approximately 190,000 rental assistance checks issued to landlords annually. Each month, the department mails 16,000 checks, one for each eligible tenant. Since there are only 11,000 landlords in the program, the additional mailing of 5,000 checks could be eliminated by consolidating checks paid to the same landlord. The cost of mailing each check is 25.4 cents. Annual cost savings would be $15,000 if checks were consolidated.

Another option the department could consider is to require all rental assistance checks be directly deposited via electronic transfer into each landlord’s bank account. Checks directly deposited will also eliminate returned checks, tracing lost checks that landlords complain they never received and the accounting of outstanding checks not cleared by the bank.

Recommendation
We recommend that the department improve their billing and collection system over landlords and tenants. Additionally, the department should improve the internal controls over the rental assistance program as well as consolidating checks issued to the same landlords.
**Auditee’s Response**

**Accounts Receivable**
We agree with this recommendation. A greater effort will be made to collect funds from landlords by improving the billing and collection system. A Deputy Attorney General has been assigned to assist with the collections on a part time basis.

**Internal Controls**
We agree with this recommendation. Policies and procedures will be revised to ensure internal controls are adequate and duties are properly segregated.

**Postage**
We agree with this recommendation. A study will be done to determine the feasibility of consolidating payments made to landlords. We will also determine the feasibility of having rental assistance checks directly deposited via electronic transfer into each landlord’s bank account. If feasible, it will be implemented on a test basis and will be expanded if the test is successful.

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**Homelessness Prevention Program**

The Homelessness Prevention Program (HPP) provides financial assistance in the form of grants and noninterest loans, to families that are in imminent danger of losing their home as a result of eviction for nonpayment of rent or mortgage foreclosure. Loans average $2,100 and are to be repaid in a maximum of 60 monthly installments. Repayments from loans are used to provide additional financial assistance to other families.

Half of all clients receiving loans have not made a single payment.

The department has never received any repayment from 1,200 of the 2,500 loans made. These delinquent loans account for $2 million of the $4.5 million loan balance. Since there is no periodic billing, it is easy for the families to ignore their financial obligation.

Additionally, there was no evidence of supervisory case management approvals for the issuance of $3.6 million in annual landlord disbursements for 2,300
assisted families. There is no verification process to determine if clients have other available resources. According to NJAC 5:12-2.1(c), “no person or household shall be eligible for assistance unless all other available financial resources have first been exhausted.” During the application process, the department should require financial documents such as tax returns and bank statements to determine the availability of other resources.

The same individual maintains loan receivable records and processes $250,000 in loan receipts annually. Proper internal control requires these duties be segregated.

**Recommendation**

We recommend that the department implement a billing and collection system over HPP loans. Additionally, we recommend that procedures be implemented to improve internal controls through supervisory approvals and segregation of duties. As an alternative, the department should consider contacting the Department of the Treasury, Division of Revenue and let them handle the billing and collection of these loans.

**Auditee’s Response**

We agree with this recommendation. A billing and collection system has been implemented. A staff person has been assigned to work with the Deputy Attorney General who is assigned to the unit. The Division of Revenue at the Department of the Treasury will be contacted to explore the possibility of that agency handling the billing and collection of loan payments.

**Balanced Housing Loans**

The department funds two types of loans to developers for the construction of affordable housing. They are either “excess cash flow” loans with repayment contingent on availability of cash proceeds at year-end or fixed payment loans with repayment based on a predetermined schedule.
Audit reports to determine if loan repayments are required have not been received.

The department provided $14 million in excess cash flow loans to 12 developers. The contract requires the developer to furnish audited annual financial reports. These are used to determine their financial ability to repay the loans. We found that financial reports are not received by the department. Management has stated that the department is not pursuing the developers’ audit reports due to a lack of staff and accounting knowledge. Without the audit reports, the department cannot determine if any payment is due from the developers. To date no repayments on excess cash flow loans have been received.

We also noted that delinquency collection procedures are not functioning as intended for the $8 million in fixed payment loans. Our tests noted that delinquency notices were not prepared timely for two of 28 developers owing loan payments totaling $78,000. In addition, there is a lack of segregation of duties over these loans. The loan services officer maintains loan receivable records and handles approximately $500,000 in loan repayments annually. Proper internal control requires the person maintaining receivable records should not have access to the loan repayments.

**Recommendation**

We recommend that the department require the submission of audited financial reports from developers, and that delinquency notices be prepared timely for fixed payment loans and duties be properly segregated.

**Auditee’s Response**

We agree with this recommendation. Audits will be submitted and staff will be trained on how to review them. An effort will be made to prepare delinquency notices in a more timely manner and duties have been properly segregated.