



Town of New Hudson Community Development Block Grant

Report of Examination

Period Covered:

January 1, 2010 — August 3, 2011

2011M-222



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	4
COMMUNITY DEVELOPMENT BLOCK GRANT	5
Recommendations	7
APPENDIX A Audit Methodology and Standards	8
APPENDIX B How to Obtain Additional Copies of the Report	9
APPENDIX C Local Regional Office Listing	10

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2012

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of New Hudson, entitled Community Development Block Grant. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of New Hudson (Town) is located in Allegany County and has a population of approximately 780. The Town Board (Board) consists of five elected members including the Town Supervisor (Supervisor). The Board is the legislative body responsible for the overall management of the Town, including oversight of the Town's operations and finances. The Supervisor serves as the Town's chief executive and chief fiscal officer. As chief fiscal officer, he is responsible for overseeing or performing all of the Town's financial duties. A bookkeeper assists the Supervisor with the maintenance of the accounting records.

The New York State Housing Trust Fund Corporation's Office of Community Renewal (OCR) oversees the New York State Community Development Block Grant (CDBG) Program. This program assists local governments with their community development needs by providing annual direct grants for revitalizing neighborhoods, expanding affordable housing and economic opportunities, and improving infrastructure and community facilities. The Town was awarded \$400,000 in CDBG funds, as recipient, pursuant to an agreement with OCR dated August 26, 2010. The Cuba Community Development Corporation (CCDC) acts as the subrecipient of the Town's CDBG program funds, providing administration and overseeing program delivery services for housing rehabilitation and new construction. In Allegany County, the CCDC has also provided CDBG grant administration services to the Towns of Genesee, Friendship, and Allen.

Objective

The objective of our audit was to evaluate the Town's financial management. Our audit addressed the following related question:

- Does the Town properly account for and monitor the administration of the Community Development Block Grant (CDBG) by the Cuba Community Development Corporation (CCDC)?

Scope and Methodology

We evaluated the Town's grant accounting and administration monitoring for the period January 1, 2010 through August 3, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix A of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials. Town officials were given the opportunity to provide a written response to our findings and recommendations within 30 days of the exit conference, but decided not to do so.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Community Development Block Grant

Local government recipients of these grant moneys may contract with a private individual, not-for-profit agency, or consulting firm, as a “subrecipient,” to receive CDBG funds for providing knowledge, expertise, and work hours that the recipient itself cannot provide. Direct responsibility for completion of grant activities, compliance with Federal and State requirements, and proper financial management of CDBG funds rests with the Board. Accordingly, the Town, as the recipient of grant funds, must enter into a detailed written agreement with any subrecipient, formally monitor subrecipient activities during the administration of the grant, and establish effective controls to safeguard development funds.

Our audit found that the Board, as governing body of the grant recipient, did not fulfill its responsibility to oversee the use of OCR funds by the CCDC. The Board did not enter into a written contract to establish the services to be provided by the CCDC as the grant subrecipient, and did not monitor the CCDC’s progress toward community development goals funded by the CDBG program. Further, the Board granted the Town Clerk (Clerk) the authority to sign the subrecipient’s requests for CDBG funds, and the Clerk was able to control key financial duties relative to the development project with no oversight.

While the amount of CDBG moneys that the CCDC has thus far expended on the Town’s behalf is relatively small, given the significant total amount available, it is important for the Town to institute and document procedures that will help ensure the proper use and monitoring of its remaining \$389,000 in CDBG grant funding.

Written Agreement — OCR requires a written agreement between the recipient and the subrecipient, covering the period that the subrecipient has control over CDBG funds. Such an agreement is essential for defining the services to be provided, the compensation for those services, and timeframes for completion. The Town, as recipient, is responsible for obtaining a contract with the subrecipient.

Neither the Town nor the CCDC was able to provide us with a signed written agreement detailing the rights and responsibilities of each party and the agreed-upon eligible activities that the CCDC would perform. Despite the absence of a written agreement, the CCDC nonetheless acted as the subrecipient of CDBG moneys. The Executive Director of the CCDC stated that not having a contract with the Town was an oversight on her part.

Without an agreement that specifies the conditions for compensating the subrecipient, the Board does not have a basis for the proper audit and approval of CCDC's requests for funds. As a result, the Town's development grant finding is at risk of waste or misuse, and the Board cannot properly monitor development status to ensure that projects are completed on time and within the funding parameters.

Segregation of Duties — Effective controls over financial operations include an adequate segregation of duties so that no one individual has authority over all fiscal functions. For example, the same person should not authorize payments, prepare and issue checks, and update the accounting records. If segregation of duties is not possible, the Board should provide additional oversight as a compensating control.

A proper segregation of duties would require that the Board first approve the subrecipient's requests for payment, the bookkeeper then prepare the checks to the CCDC, and the Supervisor sign the checks before issuance. The bookkeeper must also record this activity in the Supervisor's accounting records in a special revenue fund. Additionally, it is the Board's responsibility to ensure that grant activity is reported (with other Town financial activity) on the Annual Update Document (AUD) which the Supervisor must file with the Office of the State Comptroller.¹ This annual financial report allows the Board and general public to assess the financial operations of the Town, and provides an added level of independent financial review.

As of August 3, 2011, the Executive Director of the CCDC had submitted two requests for funds to the Town Clerk for payment of program activities: one for administration and program delivery in the amount of \$6,000, and one for septic work in the amount of \$5,000. These requests for payment were not audited and approved for payment by the Board. Instead, the Clerk approved these requests, on behalf of the Town as the recipient of CDBG funds, and returned them to CCDC for forwarding to the OCR, which released the funds to the Town by direct deposit into a bank account used only for these grant moneys. The Clerk prepared the checks from this account and gave them to the CCDC, and also maintained the records for the CDBG activity, including possession of the checks, checkbook, and bank statements. The Clerk was the only Town official whom the CCDC Executive Director contacted about the administration of the Town's CDBG project. Although the Supervisor signed the checks, the Board as a whole did not review and approve the requests for

¹ General Municipal Law requires the Supervisor, as chief fiscal officer, to file the AUD within 60 days following the close of each fiscal year. Because 2011 was the first fiscal year in which the CCDC requested CDBG funds from the Town, the grant activity should be reported in the AUD to be filed for 2011.

payment. Additionally, the bookkeeper, not the Clerk, should ensure the records are properly updated and that accurate information on grant activity will be available for filing the AUD.

Further, we reviewed CCDC's two requests for funding and found that they were not properly documented. Because the Clerk performed functions that were beyond her official duties and without Board authority, there is a significant risk that grant money could be disbursed to the CCDC for services not actually provided or not provided in accordance with OCR requirements.

Grant Administration Monitoring — Board monitoring of the CCDC's activities is required by OCR to ensure that contract terms are followed and CDBG moneys are used as intended. Periodic status and expenditure reports from the subrecipient, also required, would allow Town officials to identify and address any issues in a timely manner, and to keep the public informed on the progress of development projects. However, the Board did not establish a formal monitoring process and did not request periodic reports from the CCDC indicating what has been done with the Town's grant money and the status of grant activity. This lack of oversight places grant-funded projects at risk of mismanagement of funds and compromises the transparency of the community development process.

Recommendations

1. The Board should enter into a written agreement with the CCDC that establishes the responsibilities and costs for the administration of the CDBG project.
2. The Board should ensure that financial duties relative to the CDBG project are adequately segregated, or institute compensating controls.
3. The Supervisor should ensure that the accounting records appropriately document CDBG fund activity, and report this information on the AUD.
4. The Board should require that the CCDC, as the subrecipient of community development moneys, provide sufficient documentation to support claims against the Town's CDBG funds.
5. The Board should establish formal procedures to monitor the performance of the CCDC in the administration of the CDBG project, including Board review of periodic CCDC status reports on grant activity.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial management, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial management of the CDBG for further audit testing.

To accomplish our objectives, we interviewed appropriate individuals regarding Town policies and procedures, and reviewed pertinent documents for the period January 1, 2010 to August 3, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX B

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX C
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AND REGIONAL PROJECTS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313