



Cambria Housing Authority Financial Management

Report of Examination

Period Covered:

January 1, 2014 – August 24, 2015

2015M-316



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2016

Dear Authority Officials:

A top priority of the Office of the State Comptroller is to help authority officials manage their authorities efficiently and effectively and, by so doing, provide accountability for dollars spent to support authority operations. The Comptroller oversees the fiscal affairs of authorities statewide, as well as authorities' 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 authority operations and Board governance. Audits also can identify strategies to reduce authority costs and to strengthen controls intended to safeguard authority assets.

Following is a report of our audit of the Cambria Housing Authority, entitled Financial Management. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution.

This audit's results and recommendations are resources for authority officials to use in effectively managing operations and in meeting the expectations of taxpayers. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Cambria Housing Authority (Authority) is located in the Town of Cambria (Town) in Niagara County. The Authority was established pursuant to New York State Public Housing Law to provide low-income housing for qualified individuals in accordance with relevant provisions of Public Housing Law and the rules and regulations prescribed by the New York State Division of Housing and Community Renewal.

The Authority is governed by a five-member Board of Directors (Board).¹ The Board contracts with a General Manager to supervise the Authority's day-to-day activities. The Treasurer is responsible for maintaining custody of and disbursing Authority funds and preparing financial reports.

The Authority's 2014 operating expenditures totaled approximately \$91,000. In addition to rental income, the Authority receives a yearly stipend from the Town (\$10,000 in 2014), laundry machine fees and grant money for capital improvements. The Authority does not receive rent subsidies from either the State or federal governments.

Scope and Objective

The objective of our audit was to determine if expenditures were itemized, supported and for proper Authority purposes, and if tenants' income was verified on an annual basis for the period January 1, 2014 through August 24, 2015. Our audit addressed the following related questions:

- Were claims properly itemized, supported and audited by the Board prior to payment?
- Were tenants' income eligibility recertified annually?

Audit Results

Claims were not properly itemized, supported and audited by the Board prior to payment. We reviewed all 181 check disbursements totaling \$92,220 issued from January 1, 2014 through January 31, 2015 and found that 63 claims totaling \$31,823 (35 percent) did not contain sufficient itemization or documentation to determine they were proper Authority expenditures. The Board did not audit these claims prior to payment. Because of these weaknesses, the Authority is at risk for making payments without receiving expected goods and services in return.

¹ The Directors are appointed by the Cambria Town Board.

Authority officials could not provide evidence that they conducted an annual income recertification for eight of the 10 tenants we reviewed. The two remaining tenants had rented apartments for less than one year and, therefore, were not yet subject to the annual recertification. Further, the tenant files did not contain any documentation indicating how the Authority calculated the rental amount it charged the tenants. If Authority officials do not perform rent determinations and annual income verifications, it is possible that tenants could be residing on Authority property and paying rents that are not consistent with their current circumstances.

Comments of Authority Officials

The results of our audit and recommendations have been discussed with Authority officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Cambria Housing Authority (Authority) is located in the Town of Cambria (Town) in Niagara County. The Authority was established pursuant to New York State Public Housing Law to provide low-income housing for qualified individuals in accordance with relevant provisions of Public Housing Law and the rules and regulations prescribed by the New York State Division of Housing and Community Renewal (DHCR).

The Authority is governed by a five-member Board of Directors (Board).² According to the bylaws, the Authority's officers are the Board Chairman, Vice Chairman and Secretary. The Board contracts with a General Manager to supervise the Authority's day-to-day activities. The bylaws also indicate that the Treasurer should have custody of Authority funds and keep a full and accurate account of receipts and disbursements, make deposits, disburse funds as authorized by the Authority, preserve vouchers for such disbursements and prepare financial reports.

The Authority manages the following properties in the Town: Unicorn Apartments, Fairview Village and Northway and Southway Drives. The Unicorn Apartments is a 28-unit income-based facility for individuals over age 60 or those with a permanent disability. Monthly rents at this facility range from \$185 to \$524 per month. Northway Drive, Southway Drive and Fairview Village are locations where individuals over age 55 may purchase homes. The Authority ensures compliance with age-related deed restrictions when properties in these neighborhoods are transferred.

The Authority's 2014 operating expenditures totaled approximately \$91,000. In addition to rental income, the Authority receives a yearly stipend from the Town (\$10,000 in 2014), laundry machine fees and grant money for capital improvements. The Authority does not receive rent subsidies from either the State or federal governments.

Objective

The objective of our audit was to determine if expenditures were itemized, supported and for proper Authority purposes, and if tenants' income was verified on an annual basis. Our audit addressed the following related questions:

² The Directors are appointed by the Cambria Town Board.

- Were claims properly itemized, supported and audited by the Board prior to payment?
- Were tenants' income eligibility recertified annually?

**Scope and
Methodology**

We examined the Authority's financial management practices for the period January 1, 2014 through August 24, 2015.

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 B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
Authority Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Authority officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Good management practices dictate that the Board has the responsibility to initiate corrective action. As such, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Claims Processing

An effective system for claims processing ensures that every claim against the Authority contains enough supporting documentation to determine that purchases of goods and services represent actual and necessary expenditures for the Authority's operations. To prevent making payment on claims that are not for valid Authority purposes, the Board should audit all claims prior to payment.

We reviewed all 181 check disbursements totaling \$92,220 issued from January 1, 2014 through January 31, 2015 and found that 63 claims totaling \$31,823 (35 percent) did not contain sufficient itemization or documentation to determine they were proper Authority expenditures. Fourteen of these unsupported checks totaling \$24,550 were made to the former General Manager (10 checks totaling \$18,500) and current General Manager (four checks totaling \$6,050). The General Manager is an independent contractor³ and is paid through the cash disbursements process. However, the Authority did not have any claims on file to support that these payments were accurate.

In addition, 13 checks totaling \$2,724 were payable to cash. It appears that these checks may have been used to replenish the Authority's petty cash fund. Four checks were not supported by any documentation and nine checks were partially supported by invoices and receipts for inexpensive items typically bought with petty cash.

Furthermore, the Board does not audit claims prior to payment. The General Manager indicated that the only time claims are reviewed is when two Board members are signing the checks. These Board members have the associated claims available to them at this time. However, they did not document that they had actually reviewed these claims prior to signing the checks.

Finally, the Authority paid \$1,881 in bank fees, which were withdrawn by the bank from the checking account. There was no documentation available to indicate the purpose of the fees, which ranged from \$80 to \$778. When we brought this matter to the General Manager's attention, she told us that she was not aware of them and did not know what these fees were for.

If claims lack sufficient itemization and documentation and are not audited by the Board, the Authority is at risk for making payments to

³ It was not part of our audit scope to determine whether it was appropriate for the General Manager to be paid as an independent contractor instead of through the Authority payroll.

vendors and officials without receiving expected goods and services in return.

Recommendations

The Board should:

1. Audit all claims prior to payment and ensure that each claim is properly itemized and supported by invoices or receipts before authorizing payment.
2. Determine what the bank fees were for and whether they were proper Authority expenditures.

Tenant Income Recertification

The Authority should establish and adjust project rents in accordance with the Capital Programs Manual issued by DHCR. The rent amounts depend on such variables as public assistance levels, New York State shelter allowances, area median income and individual tenant income. In addition, HCR's Capital Programs Manual requires that the Authority annually recertify tenant income to determine continued eligibility and establish rental amounts.⁴ A document the Authority gives to all new tenants states that "every year the tenant will be asked to furnish updated income verification, employment status and family composition for use by [the Authority] in determining whether rent should be changed. The tenant agrees to provide accurate statements of the information."

We randomly selected and reviewed 10 of 28 tenant files for the Unicorn Apartments. Original application dates for these 10 tenants ranged from November 1998 to November 2014. Authority officials could not provide evidence that they conducted an annual income recertification for eight of the tenants.⁵ The two remaining tenants had rented apartments for less than one year and, therefore, were not yet subject to the annual recertification. There was no evidence to indicate that the Board required the recertifications or asked the General Manager for a report showing that recertifications were completed.

We also question whether the rents currently being charged are at appropriate amounts. The Authority tenant files did not contain any documentation indicating how the Authority calculated the rental amount it charged the tenants. The DHCR established detailed procedures for establishing rents. However, the procedures are predicated on the Authority instituting annual income verification procedures. Because the Authority has not done this, Authority officials do not have assurance that they are charging tenants appropriate rent amounts.

If Authority officials do not perform rent determinations and annual income verifications in accordance with DHCR rules, it is possible that tenants could be residing on Authority property and paying rents that are not consistent with their current circumstances. This will

⁴ See DHCR's Office of Finance and Development's Capital Programs Manual, Subsection 7.05.05, entitled "Tenant Income Verification."

⁵ Of these eight tenant files examined, five paid rent of \$300 per month, one paid rent of \$350 per month, one paid rent of \$501 per month and one paid rent of \$524 per month.

result in rents that are either too high or too low. The information handed out to new tenants indicates that the Authority recognizes the requirement for tenant recertification. However, the General Manager seemed unaware of the requirement. When we brought this matter to her attention, she indicated that she would recertify tenant income in the future.

Recommendations

The Board should ensure that the General Manager:

3. Maintains adequate documentation of how each tenant's rent is calculated in accordance with the procedures set forth by DHCR's Capital Programs Manual.
4. Annually recertifies each tenant's income eligibility for Authority housing and documents this recertification in the tenant's file.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

The Authority officials' response to this audit can be found on the following pages.

TOWN OF CAMBRIA HOUSING AUTHORITY

Karen J. Heffler, Chairperson

3411 Raymond Road
Sanborn, New York 14132
716-731-9794

January 21, 2016

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

**RE: Cambria Housing Authority Response to OSC Report of Examination
Period Contract: January 1, 2014 - August 24, 2015**

Dear Mr. Mazula:

As Chairperson of the Cambria Housing Authority (CHA), this is my response to Audit Report #2015M-316:

“Audit Results” - “Claims Processing”

- Although all claims did not have sufficient itemization, all were reviewed by management of Unicorn Apartments, Chairperson and Treasurer of the CHA. In the future, management, along with CHA Officials will make greater effort to document claims, particularly above \$500.00. Any future claims in excess of \$500.00, will be presented for full CHA Board approval.
- Bank fees will be addressed with KeyBank to reduce or eliminate those fees.

“Tenant Income Recertification”

- Although we believe all rents are being addressed within New York State DHCR guidelines, in the future, the Board will designate an individual to verify and document the rental amounts on renewal. We will also establish protocol, in writing, for the proper determination of those rentals. The documentation will be placed in individual tenant files.

Very truly yours,

Karen J. Heffler

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the Authority's financial management practices for the period January 1, 2014 through August 24, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed all check disbursements from January 1, 2014 through January 31, 2015 to determine if each was supported by an adequately itemized claim.
- We reviewed Authority bylaws and Board meeting minutes for evidence regarding the Board's audit of claims.
- We randomly selected and reviewed 10 tenant files for evidence that the Authority recertified income annually.
- We reviewed DHCR's Capital Projects Manual and the rental informational material that Authority officials give to prospective tenants.
- We spoke with the Authority's General Manager about the Board's audit of claims and the income recertification process.
- We contacted representatives from DHCR to obtain information about the Authority.

We conducted this performance audit in accordance with 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.

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