



Tonawanda Housing Authority Housing Occupancy and Information Technology

Report of Examination

Period Covered:

April 1, 2013 — July 25, 2016

2016M-381



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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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 Tonawanda Housing Authority, entitled Housing Occupancy and Information Technology. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the New York 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 Tonawanda Housing Authority (Authority) is located in the City of Tonawanda (City) in Erie County and was established pursuant to Section 412 of New York State Public Housing Law (PHL) to provide low-rent housing for qualified individuals in accordance with relevant provisions of PHL and the New York State Codes, Rules and Regulations (NYCRR).¹

The Authority is governed by a seven-member Board of Directors (Board): five are appointed by the Mayor of the City and two are tenant-elected. According to the bylaws, the Authority officers are the Chairman and Vice-Chairman. The Chairman has the general supervision over the Authority's business and affairs. The Board appoints an Executive Secretary (Executive)² who reports to the Board and, under the Chairman's supervision, has responsibility for the general management, supervision and direction of the Authority's facilities and business affairs. The Authority also employs a bookkeeper who assists the Executive in administering his duties.

The Authority's 2015-16 fiscal year operating expenditures totaled approximately \$1.1 million, funded primarily by rental income totaling \$1 million. The Authority also received grant money for capital improvements totaling approximately \$35,000 and laundry machine fees totaling approximately \$6,300.

Scope and Objective

The objective of our audit was to assess the Authority's housing occupancy process and examine information technology (IT) controls over the Authority's electronic data and computer resources for the period April 1, 2013 through July 25, 2016.³ Our audit also examined the adequacy of certain IT controls. Because of the sensitive nature of some of this information, we did not discuss the results in this report, but instead communicated them confidentially to Authority officials.

Our audit addressed the following related questions:

- Does the Board ensure maximum occupancy of tenant housing units to qualified applicants?
- Is the Board adequately safeguarding IT assets?

¹ NYCRR, Title 9 Executive Department, Subtitle S. Division of Housing and Community Renewal, Chapter III Low Rent Housing

² Subject to provisions of Civil Service Law applicable to the City

³ Our scope period for the IT controls audit objective was April 1, 2015 through May 13, 2016. For certain audit tests relating to this objective, we expanded our testing back to August 18, 2009.

Audit Results

The Board has not ensured the maximum occupancy of tenant housing units to qualified applicants. As a result, the Authority maintained a consistently high vacancy rate (33 percent vacancy rate for senior housing and 9 percent for nonsenior housing as of March 31, 2016). As a result, the Authority annually lost potential revenue that ranged⁴ from approximately \$72,000 to \$117,000. Despite the lower occupancy rate, Authority officials did not demonstrate urgency to ready all vacant apartments to rent. For example, the March 2016 vacancy report indicated that the average vacancy period was two years, with three units remaining vacant for over eight years.

We further identified both tenants and tenant applicants that were not treated in a consistently fair and equitable manner, resulting in questionable application rejections, waitlist cancellations and, conversely, potential preferential treatment to others. The result of the numerous inconsistent application rejections and cancellations further compounded the Authority's high vacancy rates.

The high vacancy rates occurred because of the Authority's poor control environment. The Board did not establish written policies and procedures to provide clear guidance and oversight of the Executive and bookkeeper in their administration of Authority operations. The Executive and bookkeeper did not respond to Board requests for additional information, and the Executive provided inaccurate and unsubstantiated information to the Board. The bookkeeper was allowed to determine whether tenant applications would be approved and, if so, the timing of when she would show apartments each month. Finally, Authority staff frequently made disparaging remarks to each other and our examiners regarding tenants and tenant applicants. Authority staff also wrote similar disparaging remarks on certain documents contained in tenant and tenant applicant files, while also asserting favorable commentary about certain other tenants and tenant applicants.

We also found deficiencies in the IT controls over the Authority's computers, including poor malware protection and insufficient IT governance. The Authority recently experienced at least two malware infections, and we found inappropriate and questionable Internet use on Authority computers. Such uses included visits to pornographic, social networking, auction and shopping websites. As a result, the Authority's personal, private and sensitive information (PPSI)⁵ is at risk of unauthorized access, public disclosure, inappropriate modification or interruption of legitimate use. Moreover, time spent visiting pornographic, social networking and shopping sites could have been used to fill vacant apartments and reduce the vacancy rates.

Comments of Authority Officials

The results of our audit have been discussed with Authority officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials agreed with our findings.

⁴ Range calculated using the lowest (\$161/month), highest (\$260/month) and average (\$208) base rental rates (excludes surcharges) multiplied by the number of months each unit was vacant (1,350) during the three-year period March 31, 2013 through March 31, 2016 and then averaged for annual vacancy loss estimates.

⁵ PPSI is any information which — if subjected to unauthorized access, disclosure, modification, destruction or disruption of access or use — could severely affect critical functions, employees, customers, third parties or residents of New York State in general.

Introduction

Background

The Tonawanda Housing Authority (Authority) is located in the City of Tonawanda (City) in Erie County and was established pursuant to Section 412 of New York State Public Housing Law (PHL) to provide low-rent housing for qualified individuals in accordance with relevant provisions of PHL and the New York State Codes, Rules and Regulations (NYCRR).⁶

The Authority's 2015-16 fiscal year operating expenditures totaled approximately \$1.1 million, funded primarily by rental income totaling approximately \$1 million. The Authority also received grant money for capital improvements totaling approximately \$35,000 and laundry machine fees totaling approximately \$6,300.

The Authority manages one 257-unit⁷ apartment complex (Complex) located in the City. Depending on a unit's size and tenant's income, current rental rates range from the efficiency welfare rate of \$154 to the five-bedroom fair market value rate of \$706. The Complex consists of four main apartment buildings as follows:

- Colin Kelly Heights – 150 one- to three-bedroom units;
- Arthur Albright Courts – 62 one- to five-bedroom units;
- Jacob J. Guzzetta Building A – Senior Apartments – 30 efficiency and one-bedroom units; and
- Jacob J. Guzzetta Building B – Near Senior Age Apartments – 15 efficiency and one-bedroom units.

The Authority is governed by a seven-member Board of Directors (Board): five are appointed by the Mayor of the City and two are tenant-elected. According to the bylaws, the Authority officers are the Chairman and Vice-Chairman. The Chairman has the general supervision over the Authority's business and affairs, subject to the Board's direction. The Board appoints an Executive Secretary (Executive)⁸ who reports to the Board and, under the Chairman's supervision, has responsibility for the general management,

⁶ NYCRR, Title 9 Executive Department, Subtitle S. Division of Housing and Community Renewal, Chapter III Low Rent Housing

⁷ The Authority reports seven additional units (for a total of 264) to the State which have either been combined with another unit and converted to a larger unit or a laundry room; and, as a result, no longer exist as individual units for rental.

⁸ Subject to provisions of Civil Service Law applicable to the City

supervision and direction of the Authority's facilities and business affairs. The Authority also employs a bookkeeper who assists the Executive in administering his duties.

After approximately 25 years of service each, the Executive retired on April 22, 2016 and the bookkeeper retired on May 27, 2016. Our audit testing focused on the period prior to these retirements. The Authority also employs two part-time clerks.

The Authority collects and maintains tenant and applicant files which contain a variety of personal, private and sensitive information (PPSI),⁹ including employees' and tenants' names, Social Security numbers, dates of birth, addresses and criminal background checks and tenants' annual income. Authority officials rely on a combination of physical file storage and computers, software programs and other information technology (IT) to manage this information.

Objective

The objective of our audit was to assess the Authority's housing occupancy process and examine IT controls over the Authority's electronic data and computer resources. Our audit addressed the following related questions:

- Does the Board ensure maximum occupancy of tenant housing units to qualified applicants?
- Is the Board adequately safeguarding IT assets?

Scope and Methodology

We examined the Authority's housing occupancy process and IT operations for the period April 1, 2013 through July 25, 2016.¹⁰ Our audit also examined the adequacy of certain IT controls. Because of the sensitive nature of some of this information, we did not discuss the results in this report, but instead communicated them confidentially to Authority officials.

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 is 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

⁹ PPSI is any information which — if subjected to unauthorized access, disclosure, modification, destruction or disruption of access or use — could severely affect critical functions, employees, customers, third parties or residents of New York State in general.

¹⁰ Our scope period for the IT controls audit objective was April 1, 2015 through May 13, 2016. For certain audit tests relating to this objective, we expanded our testing back to August 18, 2009.

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 have been discussed with Authority officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials agreed with our findings.

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.

Housing Occupancy

The Authority was established to provide adequate, safe and sanitary low-rent housing for qualified individuals and is expected to maintain a vacancy rate of not more than 5 percent. To effectively meet this goal, Authority officials should monitor various factors affecting occupancy, such as the tenant application process, waitlist management, annual income recertification and rent calculations, as well as the physical readiness of vacant apartments to rent and the resulting occupancy and vacancy rates.

The Board has not ensured the maximum occupancy of tenant housing units to qualified applicants and, through lack of appropriate oversight, has allowed preference to be given to higher income and related-party applicants. This reduced availability to applicants most in need of housing assistance. As a result, the Authority maintained a consistently high vacancy rate (33 percent vacancy rate for senior housing and 9 percent for nonsenior housing as of March 31, 2016). As a result, the Authority annually lost potential revenue that ranged¹¹ from approximately \$72,000 to \$117,000. We further identified both tenants and tenant applicants that were not treated in a consistently fair and equitable manner. This resulted in questionable application rejections, waitlist cancellations and, conversely, potential preferential treatment to others. The result of the numerous inconsistent application rejections and cancellations further compounded the Authority's high vacancy rates.

The high vacancy rates occurred as a direct result of the poor control environment that was allowed to perpetuate over the years at the Authority. The Board did not establish written policies and procedures to provide clear guidance, structure, expectations or a means to adequately monitor and provide oversight of the Executive and bookkeeper in their administration of Authority operations. As a result, the Executive and bookkeeper were unresponsive to Board requests for additional information, and the Executive provided inaccurate and unsubstantiated information to the Board.

The bookkeeper was allowed to determine whether tenant applications would be approved and, if so, the timing of when she would show apartments each month. Lastly, clearly demonstrating the lack of a proper control environment, Authority staff frequently made

¹¹ Range calculated using the lowest (\$161/month), highest (\$260/month) and average (\$208) base rental rates (excludes surcharges) multiplied by the number of months each unit was vacant (1,350) during the three-year period March 31, 2013 through March 31, 2016 and then averaged for annual vacancy loss estimates.

disparaging remarks not only to each other, but also to our examiners, during audit fieldwork regarding both tenants and tenant applicants. Authority staff also wrote similar disparaging remarks on certain documents contained in tenant and tenant applicant files, while also asserting favorable commentary about certain other tenants and tenant applicants.

Occupancy Rates

According to officials from New York State Homes and Community Renewal (NYSHCR), vacancy rates of 5 percent or less are generally considered acceptable. However, the Authority consistently maintained higher vacancy rates than acceptable. For example, as of March 31, 2016, the senior housing vacancy rate was 33 percent and nonsenior housing was 9 percent, resulting in an overall vacancy rate of 14 percent (Figure 1). Further, the Executive reported to the Board that Authority vacancies totaled 33, 34 and 35 units for the fiscal years ended 2014, 2015 and 2016, respectively, resulting in a net loss of two tenants over the three-year audit period.

Apartment Type	Total Units	Occupancy	Vacancy	Rate of Occupancy	Rate of Vacancy
Senior	45	30	15	67%	33%
Nonsenior	212	192	20	91%	9%
Total	257	222	35	86%	14%

Despite the lower occupancy rate, Authority officials did not demonstrate urgency to ready all vacant apartments to rent. For example, the March 2016 vacancy report indicated that the average vacancy period was two years, with three units remaining vacant for over eight years. We physically examined 16 vacant apartments (14 senior and two nonsenior) and found that 14 (12 senior and two nonsenior) were in ready or near-ready condition for move-in. In addition, Authority officials did not always rent available apartments to new tenants. Instead, they gave them to existing tenants as transfers, which resulted in no increase to the overall occupancy rate.

Authority officials told us that the low rate of senior housing occupancy was the result of a surplus of senior housing in the area and the lack of upgrades made to the Authority’s senior apartment buildings. While some of those reasons may have been a factor, the Authority maintained a waitlist of 24 senior applications as of March 31, 2016, so we question the effort used to find and place tenants in these apartments. The current vacant senior apartments have been idle for an average of three-and-one-half years.

The following are pictures of two of the senior apartments we observed that were left vacant although they were ready for occupancy.



The Executive met with the Board monthly and provided an update of the housing occupancy, which included a report of the number of vacancies, apartment viewing appointments and no-show and canceled apartment appointments. Additionally, the Executive noted reasons

noted reasons on six of his reports to the Board for the low amount of apartment-showing interviews. These reasons included that the bookkeeper was on vacation, there were computer problems or there were delays in processing police background checks.

While the total vacancies the Executive reported to the Board appeared to be accurate, the details of the other reported occupancy factors were not. For example, for the period January 1, 2015 through March 31, 2016, the Executive reported 35 new tenants, while our testing found support for 27. As a result, the Executive presented overstated new tenant information to the Board. Further, during this same period, the Executive reported 29 new tenants to NYSHCR. As a result, the Executive did not provide consistent new tenant data and, consequently, the Board did not receive accurate information to help it make informed decisions.

In the October 2015 Executive's report, as referenced in the Board meeting minutes, the Executive established a goal of renting out 10 units within the next two months. The Executive stated in his report a plan to hire a painter to prepare six apartments for rent. However, Authority officials wanted to use a certain painter but later found out that the painter did not have a workers' compensation certificate, which delayed the project. During November 2015, five apartments were painted. While one apartment was rented within the two-month timeframe goal asserted by the Executive and one was rented outside the time frame, as of March 2016, three remained vacant. There was no evidence in the Board's meeting minutes, or the Executive's subsequent reports to the Board, regarding the status of this project.

Certain Board members told us they questioned the Executive's occupancy and vacancy reports and asked for additional reports and information. However, despite repeated requests, the Executive and bookkeeper never provided this information. During our audit fieldwork, the bookkeeper stated she would not provide Board members certain information they asked for, such as waitlist and application details, because she considered it confidential information that should not be shared. However, the bookkeeper could have provided the waitlists and application files to Board members with redacted information deemed to be confidential.

Admission and Occupancy Process

To begin the admission and occupancy process, an applicant must complete an Authority housing application by documenting, among other information, income level, current address and the applicant's approval for the Authority to obtain a background criminal and credit history check. Approved applications are recorded on one of the Authority's nine separate waitlists. Tenant applicants with rejected or canceled applications may request a hearing with the Authority.

However, the bookkeeper stated that she would cancel applications for prospective tenants who did not arrive for their scheduled appointment to view an apartment. The Authority does not permit a hearing request in these circumstances.

Waitlist applications should be updated at least annually by mailing an inquiry to the applicants to determine present interest as well as any need for changes to the previously-approved applications (e.g., change in residency or income). Waitlists are the basis for determining which applicants will be contacted next for the respective housing for which they are approved once an opening occurs. Once an applicant becomes a tenant, an annual rent calculation and income certification must be completed to ensure only qualified tenants remain in Authority housing. The accuracy and integrity of the application review, waitlist chronology and revision and annual recertification are all essential to maximizing the Authority's housing occupancy.

We examined the Authority's treatment of applications for 219 prospective tenants on the Authority's nine waitlists, 32 new tenants and five existing tenants who were related¹² parties to Authority officials and/or staff and found numerous exceptions.

Completeness — The Authority's application states that applications will be rejected for failure to return a completed application with a copy of a valid photo identification. We found one instance where the bookkeeper sent a letter to a new tenant stating that a driver's license was missing from their file and asked that a copy be submitted. However, no letters requesting missing documents were available for four of the 19 canceled applications and three of the 30 waitlist cancellations in 2015-16 that were identified as missing documentation.

Insufficient Income — While there is no statutory requirement, the Authority rejects tenant applications that do not show sufficient income to pay rent and sustain the family unit. The Authority had no written guidance to determine what constitutes sufficient income. Authority officials were unable to explain what the criteria was for insufficient income. For example, an applicant originally submitted an application in 2012 and indicated Social Security Income (SSI) totaling \$721 per month. The applicant completed a 2014 application update and again indicated SSI was the income source but did not indicate an amount. In May 2016, the application was rejected for insufficient income. We question why the original 2012 annual income of \$8,652¹³ was not adequate to rent, for example, a four-

¹² A party who is a close family member of a person who is part of Authority management or personnel, or who controls the Authority

¹³ \$721 x 12 months = \$8,652

bedroom apartment at a current annual rent of \$3,100 (36 percent of income).

Background and Credit Checks — PHL permits a housing authority to set standards of desirability for tenant applicant acceptance.¹⁴ An authority may admit an applicant with a criminal conviction in certain circumstances.¹⁵ Further, if the background check reveals any criminal offenses, housing authorities are encouraged to take other factors into consideration (e.g., treatment program). However, Authority officials told us that applications will be rejected for drug related arrests or for conviction of any crime.

The Authority does not have written guidance to ensure that PHL standards for evaluating a criminal background and credit check are consistently applied to ensure all applicants are treated fairly and equitably. Further, the Authority does not take other factors into consideration if a criminal offense is identified during the background check (e.g., treatment program). While not documented in a Board-approved policy or procedures, the bookkeeper stated that she determines that applications are disqualified for criminal activities or criminal felonies (with the exception of driving while intoxicated) or if there is a record that the individual has a lot of police calls or calls involving neighbor or domestic issues. We found inconsistencies in the application of these standards, as follows.

- We found similar criminal issues between two recent applicants that were treated differently. A new tenant, whose application was approved, had a background check that indicated four prior arrests from 2006, 2009, 2011 and 2012. However, a different applicant had been rejected due to a background check that indicated two prior arrests dated 2012 and 2014. There was no additional information to make it clear why one applicant was permitted to rent an apartment and the other applicant was rejected.
- In another new tenant's file, we found a background check that indicated a 2005 arrest for burglary and criminal mischief with no clarification why this applicant was permitted to rent an Authority apartment.

¹⁴ These standards are meant to create and maintain an environment conducive to the good health, safety, morals, welfare and comfort of housing authority tenants. Persons whose conduct and behavior create effects and influences adverse and detrimental to the Authority and its tenants interfere with and prevent achieving PHL's objectives.

¹⁵ If the person responsible for the criminal activity demonstrates rehabilitation or good conduct, is no longer engaging in drug or alcohol related activity, if this was an issue, or if the household member determined to have engaged in the activity will not reside in the unit

- Out of 32 new and five related-party¹⁶ tenant files that we reviewed, nine new tenant files and all five related-party tenant files contained no background checks or references to a background check having been performed.
- No credit checks were noted, or located, for six tenants. Three of these tenants were related parties.

Rejected and Canceled Application Recourse — The Authority bars rejected and canceled applicants from reapplying for a minimum of one year and mails the rejected applicants a letter which states that a hearing regarding the rejection can be requested within 14 days after the receipt of the rejection letter.

While the Authority is apparently not precluded from managing applicant rejections in this manner, we question why Authority officials chose to make the process more difficult for rejected applicants by reducing the time period from the 30 days provided for in law to 14 days. In addition, the Board does not conduct Authority hearings. Instead, the Executive and a witness — who was one of the Authority’s two part-time clerks, one of whom was the Executive’s daughter — conducted these hearings. While it was documented that a witness was in attendance, the witness never signed the hearing document. The Authority could improve the process by having greater Board involvement and better documenting the hearings.

Rent Rates — PHL requires tenant income to be reviewed at least annually. Persons or families must be removed from Authority housing when their income exceeds legal or administrative limits. We identified the following:

- Sixteen tenants’ initial rent calculations were not documented. Two of these tenants were related parties. While the Authority’s tenant software does not provide a rent calculation worksheet until someone is an official tenant, this does not eliminate the need for a uniform rent calculation document. In 12 cases, we found the initial income supporting documents, but the actual detailed calculation was not available.
- Twelve tenants’ current year rent and income calculation worksheets were not prepared, as is statutorily required. Three of these tenants were related parties. The Executive stated he did not think it was necessary to recalculate the rent each year if the tenant was paying fair market value, unless there was a material reduction in income. Not recalculating and

¹⁶ See footnote 12.

documenting tenants' income fails to alert Authority officials when a tenant's income exceeds the cap.¹⁷

- Five tenants secured housing at the Authority despite having income levels above the income cap, as noted on their initial rent calculation worksheets.

The bookkeeper stated that the Authority did not use the income guidelines because the Authority was not operating at maximum housing capacity. As a result, 96 of the 222 active tenants (43 percent) as of March 31, 2016 were paying fair market value rent. It is possible that there are more tenants with income in excess of the cap that should no longer be living at the Authority.

Waitlists — The Authority should follow the NYCRR procedures to ensure waitlist integrity including, but not limited to, keeping a control card where each step of the application process is recorded for each approved applicant on the waitlist. Tenant software can replace some of these manual processes. The Authority maintains nine separate waitlists of prospective tenants who have submitted an application that the bookkeeper has reviewed and approved as meeting the eligibility requirements for tenant housing. The Authority is currently using a combination of manual records and two unsupported tenant software programs.

While the bookkeeper updated the waitlists, she did not provide them to the Board for its review and monitoring. As housing became available, the bookkeeper also controlled the process for contacting approved applicants on the waitlist to set up an appointment for viewing the available apartments. To achieve this, the bookkeeper sent one mailing to the applicant to advise him or her of the housing opening and the appointment date and time she scheduled the applicant to view the apartment.

The bookkeeper stated that, because of her workload, she attempted to make six interview appointments for one week each month. We found that on average she made five appointments each month. The letter required the applicant to call the bookkeeper by a certain date to confirm the appointment. If the applicant did not call, the Authority still expected the applicant to keep the interview date. Further, prior to the one letter the bookkeeper sent out, she did not phone any of the applicants to determine if they were still at the same address or if they were still interested in an apartment. As a result, there was a large number of no-shows for these interviews.

¹⁷ Aggregate income is capped at six to seven times the annual rent, depending on certain circumstances.

We reviewed 219 waitlist applications from the January 2015 through June 2016 waitlists. For the nine separate resident and nonresident waitlists based on apartment size,¹⁸ we found the following exceptions:

- Six of the nine manual waitlists had not been updated for a six-month period.
- Fifty-four applications were processed during the 18-month period at a rate of three applications per month. Eleven of the applicants resulted in new tenants, while the remaining 43 applications were rejected or canceled for various reasons.
- Ten applicant appointments were not called in waitlist order. Additionally, two tenant applications were found on the bookkeeper's desk that had been omitted from the waitlist altogether. The current Executive added them to the waitlist after we brought this to his attention. One became a tenant and the other, a senior, no longer needed an apartment.
- Four applicants remained at the top of the respective waitlists even though they could not begin renting an Authority apartment because they had stated that they were currently residing in other housing projects under a lease condition.
- The bookkeeper did not maintain a record of applicant apartment interviews.
- The last waitlist application update letter was sent out in October 2014, which contributed to missed appointments resulting in more canceled applications.

Conduct of Authority Officials and Staff — While examining tenant applicant and existing tenant files during our audit fieldwork, we found hostile notes describing personal judgments of the respective applicants using vulgar language apparently made by Authority staff. Also, during audit fieldwork, Authority staff made derogatory statements regarding a tenant's personal hygiene and asserted their preferences toward applicants who paid or would pay fair market value rent (not subsidized). One additional tenant wrote a complaint letter, which was retained in the tenant's file, asserting the tenant was poorly treated by two of the Authority's office staff.

Because of the poor control environment, the Authority's business practices continued to perpetuate low housing occupancy rates which resulted in significant potential revenue loss. Moreover, the Authority

¹⁸ The types of apartments include senior and one, two, three, four and five bedroom apartments.

has not been operating in a fair and equitable, efficient or transparent manner and has not been fulfilling its duty to provide low cost housing to qualified individuals.

Recommendations

The Board should:

1. Ensure that the Executive provides appropriate information, in a complete and accurate manner, to the Board so it can effectively monitor Authority operations.

The Board and Authority officials should:

2. Develop, adopt and implement written policies and procedures that address key components of the Authority's housing occupancy operations, including but not limited to:
 - The Board's expectations and goals for the management of the housing occupancy process;
 - Definition of roles, responsibilities and extent of authority for each Authority officer and staff member;
 - Uniform treatment of prospective tenant applications, background and credit checks, waitlist management, rent rate calculations, annual tenant application updates and income verifications;
 - Maintenance of and extent of access to housing occupancy related records including, but not limited to, applications and application updates, background and credit checks, waitlists, vacancies, rent rate calculations and income verifications;
 - Reapplication and hearing procedures for tenants with rejected or canceled applications;
 - Maximizing apartment readiness and apartment showing protocols; and
 - Board monitoring and oversight of the housing occupancy operations and staff to ensure the Authority's purpose is being achieved in a professional, fair, equitable and transparent manner that meets all applicable statutory requirements.

The Executive should:

3. Ensure that he and Authority staff abide by the Board's adopted policies and procedures.

Information Technology

The Authority collects and maintains a variety of PPSI¹⁹ including employees' and tenants' names, Social Security numbers, dates of birth and addresses and tenants' annual income. Authority officials rely on computers, software programs and other IT to manage this information. These IT assets must be properly safeguarded to protect PPSI against unauthorized access, misuse and abuse. This is especially important given the increase in attacks including viruses, ransomware and other types of malicious software (malware).²⁰

We found deficiencies in the IT controls over the Authority's computers, including poor malware protection and insufficient IT governance. The Authority recently experienced at least two malware infections, and we found inappropriate and questionable Internet use on Authority computers, including access of pornographic websites. As a result, the Authority's PPSI is at risk of unauthorized access, public disclosure, inappropriate modification or interruption of legitimate use.

Malware Infections

An essential part of safeguarding PPSI is preventing, detecting and minimizing the impact of malware infections. Damage caused by a malware infection can range from a nuisance (e.g., pop-up advertisements) to theft of personal information (e.g., Social Security numbers) or a completely inoperable computer (e.g., damaged hardware). Computer users can inadvertently install malware on their computers in many ways, including opening email attachments, downloading software from the Internet or visiting infected websites.

We found indications of previous malware infections and continued suspicious activity on the Authority's computers.

- The bookkeeper told us that her computer was infected with ransomware two years prior to our audit. She said that she received a falsified email message that, when opened, encrypted all data on her computer, making that data unreadable and unusable until decrypted. The ransomware program then directed her to make a ransom payment to

¹⁹ PPSI is any information which — if subjected to unauthorized access, disclosure, modification, destruction or disruption of access or use — could severely affect critical functions, employees, customers, third parties or residents of New York State in general.

²⁰ Malware refers to programs specifically designed to harm computers and data. Ransomware is a type of malware that restricts access to a computer it infects or the data that computer contains and then demands that a ransom be paid to regain access.

obtain the key needed to decrypt the data. The Authority's IT vendor was unable to remediate the infection. However, officials were able to avoid making the ransom payment by restoring a backup of the necessary data to another computer.

- The installed software and Internet history on the Executive's computer showed that a virus infection had been detected three days prior to our testing. This virus is known to display pop-up advertisements but could cause other damage as well.
- A potentially unauthorized software program, used to access the computer remotely from another computer, was installed on the Executive's computer in September 2014. While this software could be used for legitimate business purposes, officials indicated that remote access has not been authorized at the Authority since at least 2001. Further, this type of software is a common characteristic of malware infection, as attackers leverage it to maintain long-term access to infected computers.

IT best practice suggests that a malware victim review, or contract for the review of, audit logs (automated trails of system activity) and other available information to determine the extent of any incidents that occur. In addition, New York State Technology Law (State Technology Law) requires notification be given to certain individuals²¹ when there is a breach of private information.²² However, the Board has not adopted a breach notification policy and officials did not have any analysis done of the infected computers. In addition, they did not consider, discuss or explore potential consequences of the incidents, such as exposure of personal information or residual system infection.²³ As a result, they did not determine the extent of the incidents and cannot be certain whether they constituted a breach that would have required notification to affected individuals.

²¹ State Technology Law generally provides that notification shall be given by written, electronic, telephone or substitute notice to any resident of New York State whose private information was, or is reasonably believed to have been, acquired by a person without valid authorization. The law further requires that the disclosure be made in the most expedient time possible and without unreasonable delay, consistent with the legitimate needs of law enforcement.

²² State Technology Law generally defines a breach as unauthorized acquisition of computerized data which compromises the security, confidentiality or integrity of personal information maintained by the entity. Private information is defined as personal information in combination with any one or more of the following data elements, when either the personal information or the data element is not encrypted or encrypted with an encryption key that has also been acquired: (1) Social Security number; (2) driver's license number or nondriver identification card number; or (3) account number or credit or debit card number, in combination with any required security code, access code, or password which would permit access to an individual's financial account.

²³ Malware often includes programs that remain hidden on infected systems after more obvious signs of infection are removed. Attackers use these residual programs to access the data days, weeks, months and even years after the initial infection.

Malware Protection

Proper IT security and preparation can reduce the risk of becoming a victim of ransomware and other types of malware. This includes installing and keeping antivirus software up-to-date, implementing and enforcing a computer and Internet use policy and providing IT security awareness training to employees. Authority officials poorly manage the antivirus software on Authority computers, do not restrict or monitor employees' Internet use and have not provided training to employees on the risks of inappropriate Internet use or recognizing and responding to malware. These deficiencies resulted in the noted malware infections and the potential compromise of the Authority's PPSI.

Antivirus Software— It is essential that Authority officials implement and maintain antivirus software, including the frequent updating of virus definitions, to ensure computers are protected against viruses, ransomware and other types of malware. Without current virus definitions, protection is limited and leaves computers at risk of being infected by recent threats. Because new viruses are always appearing, antivirus definitions should be updated at least daily and be set to scan for threats throughout the day.

We examined the antivirus software installed on the five Authority computers and found that, while four computers had one or more different antivirus software programs installed, three did not have current versions. Further, the back room computer did not have functioning antivirus software installed and running at the time of our audit testing. Without this software, suspicious programs cannot be detected and prevented from running, which can allow malware infections to occur and then potentially spread to other Authority computers. Because this computer is used to update tenant income information and generate various tenant and apartment vacancy reports, a malware infection on this computer could lead to a compromise of tenants' PPSI.

Had Authority officials selected one antivirus software program for use on all Authority computers, managing that software could be an easier task. Unless officials ensure that all computers have current and functioning antivirus software installed at all times, those computers will remain at risk of damage from continued malware infections that can compromise the Authority's PPSI or render computers inoperable.

Internet Use— Computer policies address key IT security areas such as acceptable computer and Internet use. Policies must be implemented, enforceable, concise and easy to understand, and should balance IT security with employees' productivity. The Board has not adopted a policy that addresses computer or Internet use. Authority employees

engage in Internet activities that continue to put the Authority’s PPSI at risk.

Specifically, we identified evidence of inappropriate and other questionable Internet use on each of the three computers whose Internet history we were able to examine. Authority employees used these computers to access multiple websites of a personal, nonbusiness or otherwise high-risk nature, including pornographic, social networking, auction and shopping. Because these types of websites are commonly used to spread malware, such Internet use unnecessarily exposes the Authority’s computers and PPSI to future malware infections. Adopting a policy that addresses computer and Internet use could help Authority employees better understand their responsibilities and expected behavior with regard to using the Authority’s IT assets. Moreover, time spent visiting pornographic, social networking and shopping sites could have been used to fill vacant apartments and reduce the vacancy rates.

IT Security Awareness — Another important way to communicate IT security responsibilities and expectations to employees is through IT security awareness training. Such training is intended to assist employees with recognizing IT security concerns and then responding appropriately. IT security awareness training should include communicating Authority policies and discussing various security matters such as the dangers of downloading files and programs from the Internet and how to respond if a virus or other type of malware is detected. Training could also cover the latest scams being used to steal PPSI, such as phishing and other types of social engineering.²⁴ Because the Board has not provided employees with IT security awareness training, they were not aware of the risks of their inappropriate Internet use and were not adequately prepared to recognize and respond to malware.

Information Technology Governance

Although no single practice or policy on its own can adequately safeguard computers and PPSI, there are a number of controls that, if properly implemented and monitored, collectively increase the odds that these IT assets will remain safe. The Board is responsible for overseeing these controls and ensuring they are appropriate and functioning as intended. The Board is also responsible for communicating its expectations to officers and employees via written policies and procedures, employee training and agreements with IT

²⁴ Social engineering is a term that describes a nontechnical kind of intrusion that often involves tricking people into breaking normal security procedures. Phishing is a type of social engineering that involves sending legitimate-looking email messages to many individuals at once in an attempt to gather confidential information from victims.

vendors. Without this governance, the overall IT security program will likely be ineffective.

The Board's IT governance practices are not sufficient to ensure that the Authority's computers and PPSI are safeguarded against unauthorized access, misuse and abuse. While employees use an electronic data processing policy provided by the Authority's certified public accountant for guidance, the Board has not reviewed, modified or approved this policy. As such, it fails to address several key IT areas, including acceptable computer and Internet use, breach notification and disaster recovery.²⁵ Several items in the policy are either inadequate or are not being followed, including those related to passwords, backups and policy review.

In addition, the Authority relies on the bookkeeper for day-to-day support of the IT environment and, until recently, requested more advanced IT support on an as needed basis. The Board did not ensure that third-party support was available whenever needed or provide the bookkeeper with the training and technical knowledge necessary to adequately safeguard the Authority's IT assets. The Board's poor IT governance led to the control deficiencies and malware infections that could have compromised the Authority's PPSI.

Recommendations

The Board should:

4. Ensure that Authority computers are not currently infected with malware and that any unauthorized software programs are removed.
5. Adopt a breach notification policy and implement a process for analyzing infected computers and determining the extent of incidents that occur.
6. Ensure all Authority computers are running up-to-date antivirus software and are frequently scanned for viruses and other malware. The Board also should ensure that any detected malware is immediately and thoroughly removed.
7. Adopt and enforce a computer and Internet use policy that defines appropriate and prohibited activities when using Authority computers and other IT assets.
8. Provide IT security awareness training to all Authority employees at least annually. This training should include

²⁵ A disaster recovery plan documents the process to be followed in response to a disaster or other significant incident.

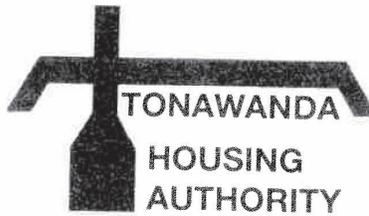
discussions of the Authority's IT policies, the risks of inappropriate Internet use and recognizing and responding to malware.

9. Review, periodically update and approve the electronic data processing policy. This policy, or supplementary policies as appropriate, should address disaster recovery and backup procedures for all critical Authority systems.
10. Ensure the Authority's IT assets are adequately supported by a knowledgeable Authority employee or by an IT vendor when needed.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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



200 Gibson Street / Tonawanda, New York 14150 / 716-692-3555

03/15/2017

To: Jeffrey D. Mazula , Chief Examiner - Office of the New York State Comptroller

From: Mr. Dale Kokanovich, Executive Secretary, Tonawanda Housing Authority

Re: Audit Response Letter

Mr. Mazula

The Board of Directors of the Tonawanda Housing Authority and the Executive Secretary have reviewed the preliminary draft findings of the audit conducted, by your office, of the Tonawanda Housing Authority, 200 Gibson Street, Tonawanda NY 14150.

After this review, the Board of Directors and the Executive Secretary agree with the findings as they appear in this preliminary draft report.

Respectfully

Dale Kokanovich

Executive Secretary

COLIN KELLY HEIGHTS - ARTHUR ALBRIGHT COURTS - JACOB J. GUZZETTA APARTMENTS

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Authority officials and staff to gain an understanding of the Authority's application, waitlist and rental procedures.
- We interviewed all Board members to gain an understanding of their roles and responsibilities.
- We reviewed Board minutes, bylaws and Executive reports and vacancy reports sent to NYSHCR for 2013-14, 2014-15 and 2015-16.
- We analyzed 2013-14, 2014-15 and 2015-16 occupancy rates and verified the Authority's vacancy cost calculations.
- We reconciled the March 22, 2016 vacancy report to the March 29, 2016 Master Apartment File Listing Report to verify vacancies and establish the total number of rental units.
- We completed a walkthrough of all senior vacancy apartments and two nonsenior apartments per the March 22, 2016 vacancy report to verify the condition and vacancy status of these units.
- We reviewed January 2015 through June 2016 waitlist activity for all units to determine if waitlists were used in the correct order.
- We reviewed all January 2015 through June 2016 canceled and rejected applications to determine if uniform treatment was applied to all applicants.
- We tested all 32 January 2015 through June 2016 new tenants and five related-party tenants for consistent treatment of application and waitlist processes. We also evaluated their incomes compared to income limits.
- We calculated the total number of tenants paying fair market value rents as of March 31, 2016.

To achieve our IT audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Authority officials to gain an understanding of the Authority's computers and related IT controls.
- We reviewed the Authority's electronic data processing policy.
- We inquired about any IT security incidents that have occurred at the Authority.

- We ran the WinAudit²⁶ tool on the computers to identify the software installed and settings configured and then analyzed the results, looking for IT security weaknesses. We were unable to successfully run WinAudit on one of the computers and instead manually examined the software installed on that computer.
- We exported the Internet Explorer, Firefox and Chrome history data from three computers (we were unable to successfully export the history data from the remaining two computers) and then examined the data, looking for inappropriate Internet use.

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.

²⁶ An open source inventory utility for Windows computers (<http://www.parmavex.co.uk/winaudit.html>)

APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
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