



Cortland Housing Authority Financial Condition

Report of Examination

Period Covered:

April 1, 2014 — March 31, 2015

2015M-205



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

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 Cortland Housing Authority, entitled Financial Condition. 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 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*

Introduction

Background

The Cortland Housing Authority (Authority) is located in the City of Cortland (City) in Cortland County (County). The Authority was established pursuant to Section 447 of New York State Public Housing Law to provide low-rent housing for qualified individuals in accordance with relevant provisions of the Public Housing Law and the rules and regulations prescribed by the Federal Department of Housing and Urban Development (HUD). On a periodic basis, HUD prepares an evaluation of authorities, scoring them on the following four indicators: physical, financial, management and capital.

The Authority's 2014-15 fiscal year operating expenditures totaled approximately \$2 million.¹ These costs were funded mainly by rental income from tenants and subsidies from HUD. The Authority receives an operating subsidy² to subsidize rent and a capital subsidy to maintain and improve the facilities. The Authority maintains 380 public housing units which include two towers in the City and multiple townhouses and other units spread throughout the County.

The Board of Commissioners (Board) is composed of seven Commissioners. The City's Mayor appoints five Commissioners and the tenants elect two Commissioners. The Board is responsible for the general management and control of the Authority's financial affairs and budget approval. The Board appoints an Executive Director who is the Authority's chief executive officer and is responsible for the Authority's day-to-day operations. A Deputy Executive Director assists the Executive Director in administering her duties.

Objective

The objective of our audit was to assess the Authority's financial condition. Our audit addressed the following related question:

- Did the Board appropriately manage the Authority's financial condition?

Scope and Methodology

We examined the Authority's financial condition for the period April 1, 2014 through March 31, 2015. We extended our scope back to the fiscal year ending March 31, 2011 for historical perspective.

¹ Operating expenditures are defined according to HUD's accounting guidelines and do not include extraordinary maintenance and depreciation. For the 2014-15 fiscal year, extraordinary maintenance totaled \$138,788 and depreciation totaled \$528,697.

² Operating subsidies averaged \$788,573 for the three fiscal years in which full operating subsidies were received (2010-11, 2013-14 and 2014-15).

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**

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 report.

Financial Condition

To effectively manage a public housing authority's financial condition, authority officials should monitor various factors affecting financial condition, such as the budget and occupancy rates.³ Specifically, the Board should review monthly budget status reports comparing actual revenues and expenditures with budgeted amounts (budget-to-actual reports) and occupancy rate reports, to closely monitor revenues and expenditures and keep up to date on the Authority's cash balances. Additionally, the Board should use tools and resources to develop a long-term plan to maintain the Authority's fiscal health.

Authority officials have appropriately managed the Authority's financial condition. The Board meets monthly with the Executive Director and Deputy Executive Director for detailed discussions and to review financial information. These meetings include examining budget-to-actual reports, occupancy rate reports, cash reports and other relevant financial information. During these meetings, Authority officials closely monitor revenues and expenditures to ensure that revenues are keeping pace with expenditures. The Board also approved the Authority's five-year plan, which includes details on making capital and safety improvements and enhancing the overall community.

Authority officials are constantly monitoring the five-year plan to maximize the results of using capital subsidies. Although the Authority received low scores in its HUD assessments in 2010-11, 2012-13 and 2013-14 (driven primarily by low occupancy rates in each of these years), Authority officials took corrective action, which resulted in improved occupancy rates. For example, after previously upgrading computer hardware and software to speed up the housing application process, Authority officials developed a strategic plan in December 2013 that increased advertising and networking with local agencies, changed waiting list procedures to line up more potential tenants per vacant unit and focused more resources on renovating and updating vacant units so they were available sooner.

We reviewed, examined and recalculated HUD's assessment of the Authority from 2010-11 through 2014-15. We also used unaudited financial and other information submitted to HUD for 2014-15 to assess the Authority's financial condition using similar methodology

³ According to HUD's periodic assessment of authorities, occupancy rates below 94 percent are considered substandard.

to our fiscal stress monitoring system.⁴ Based on the results of our analysis and because Authority officials used effective monitoring procedures, the Authority's financial condition remained strong over the last five fiscal years.

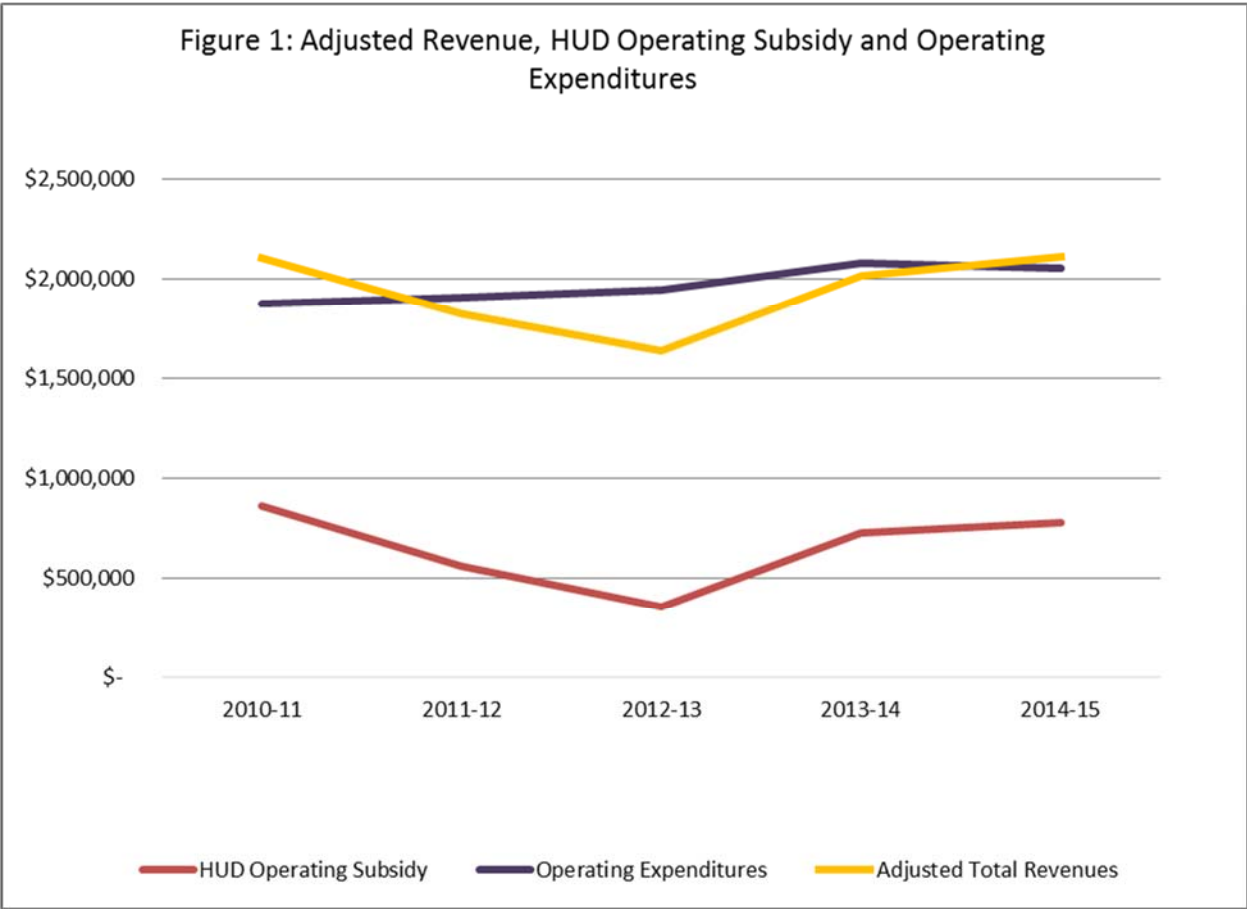
During the 2012 calendar year, the Authority did not receive an operating subsidy from HUD.⁵ As a result, during 2011-12 and 2012-13 the Authority incurred operating deficits. Although these deficits caused a drop in the Authority's net assets, the Authority's financial position still remained strong. For example, we found that, as of March 31, 2015, Authority officials were able to keep operating expenditures stable, which resulted in a small operating surplus of approximately \$55,000. For 2014-15, the Authority's HUD assessment improved significantly, and as a result, the Authority was rated a high performer – the highest rating in HUD's assessment.⁶ Authority officials have worked effectively to maintain a strong financial position by controlling expenditures to ensure they did not outpace revenues.⁷

⁴ Based on the methodology used by the Office of the State Comptroller to identify fiscally stressed units. Our office has developed a system of evaluating a municipality's susceptibility to fiscal stress based on the annual financial statements filed. More details are available at: <http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm>. This system is not used to evaluate public authorities (which use enterprise fund accounting); therefore, we modified the methodology accordingly.

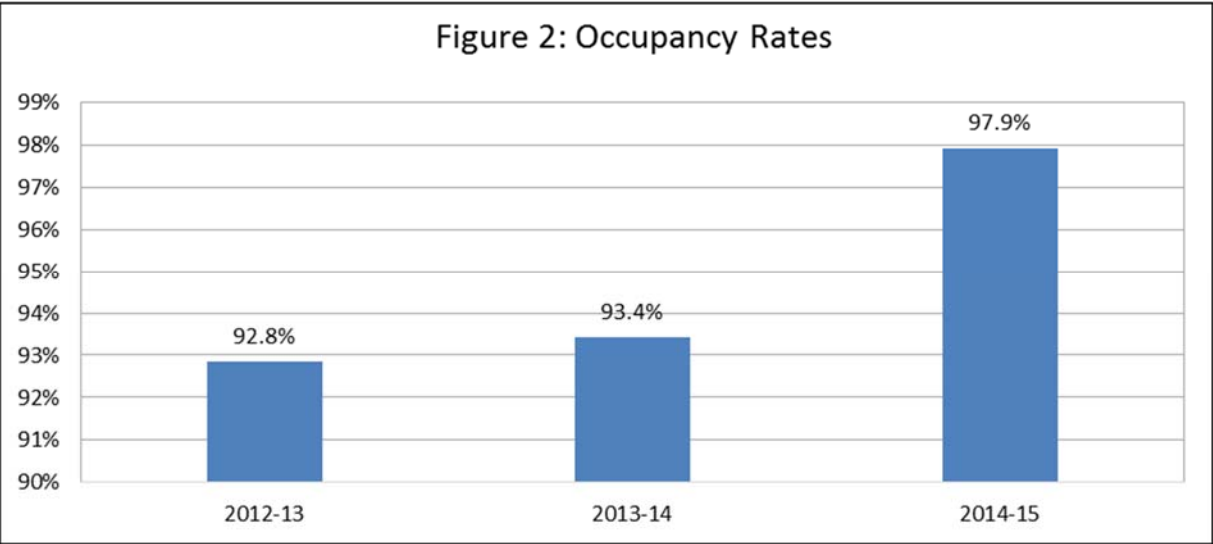
⁵ HUD evaluates net assets as part of its periodic assessment and decided that authorities showing excessive levels of net assets would not receive a subsidy in calendar year 2012.

⁶ The rating is based on the Authority scoring 91 out of 100 points, with the high performer designation being anything over 90 points. The financial information used for the rating and our calculation of the operating surplus is based on 2014-15 unaudited results.

⁷ Total revenues have been adjusted to remove capital grants because capital purchases are not included in the operating expenditures of an enterprise fund. For the five years examined, capital grants of approximately \$1.3 million were offset with capital purchases of approximately \$1.5 million. Operating expenditures do not include depreciation, which totaled approximately \$2.8 million during the same period.



After implementing the strategic plan during 2012-13 and 2013-14, occupancy rates rose significantly higher in 2014-15. The plan enabled Authority officials to steadily improve rates from a substandard occupancy rate in 2012-13 to an increase of more than 5 percent in the occupancy rate in April 2014 that has remained at that level.



We commend Authority officials for taking the appropriate actions and maintaining the Authority's strong financial condition.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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

CORTLAND HOUSING AUTHORITY

42 CHURCH STREET
CORTLAND, NEW YORK 13045

WARREN S. EDDY, Chairman

MARGARET J. LANN, Executive Director
Telephone: (607) 753-1771
Fax: (607) 753-7313

October 19, 2015

Mr. Todd Eames, Principal Examiner
Division of Local Government
and School Accountability
Office of the State Comptroller
Binghamton Regional Office
44 Hawley Street - Rm 1702
Binghamton, NY 13901-4417

Dear Mr. Eames:

On behalf of the Cortland Housing Authority, please accept this letter as a response to the New York State Comptroller's Office audit report for the period from April 1, 2014 - March 31, 2015.

I am pleased to report that the Authority is in concurrence with the content of the above referenced Draft Audit Report. In addition, I am proud to convey that since there were no findings, a corrective action plan will not be forthcoming. This is a true attestation that Authority officials have appropriately managed the Authority's financial condition.

We thank you and your staff for the professionalism and time involved in this audit and appreciate the feedback and communication provided. If there are any other issues or matters that your office wishes to address, please contact me directly at 607-753-1771.

Sincerely,

Margaret J. Lann
Executive Director

Cc: CHA Board of Commissioners

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We verified cash balances to outside documentation and examined cash flow and bank account activity for any signs of fiscal stress.
- We reviewed, examined and recalculated (where possible) HUD's assessment of the Authority from 2010-11 through 2014-15. We also used unaudited financial and other information provided to HUD for 2014-15 to assess the Authority's financial condition using similar methodology to our fiscal stress monitoring system.⁸
- We interviewed Authority officials and the Authority's external accountant and examined monthly Board minutes and reports, budgets for the current and past five fiscal years, audited financial statements, the five-year strategic plan and HUD documentation, reports and guidance to assess the Board's role in monitoring the Authority's financial condition. We also examined HUD documents and reports to gain an understanding of how the operating and capital subsidies are granted and gain an understanding of their effect on the Authority's financial condition.
- We reviewed financial information from 2010-11 through 2014-15 to determine any trends between the occupancy rates, the operating subsidy, rent revenue and total operating expenditures. We also assessed how those trends impacted the Authority's financial condition.

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.

⁸ See footnote 4

APPENDIX C

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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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

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