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November 2016

Jeffrey McCheskey, Executive Director
Members of the Board of Commissioners
Jamestown Housing Authority
110 West Third Street
Jamestown, NY 14701

Report Number: S9-15-74

Dear Mr. McCheskey and Members of the Board of Commissioners:

The Office of the State Comptroller works to help housing authority officials manage their resources efficiently and effectively and, by so doing, provide accountability for dollars spent to support authority operations. The Comptroller oversees the fiscal affairs of authorities, 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 operations and governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard assets.

In accordance with these goals, we conducted an audit of six municipal housing authorities throughout New York State. The objective of our audit was to determine whether municipal housing authorities' administrators¹ were incurring inappropriate expenditures or receiving compensation beyond what is legally allowed. We included the Jamestown Housing Authority (Authority) in this audit. Within the scope of this audit, we examined the policies and procedures of the Authority and reviewed administrative expenditures for the period January 1, 2012 through August 13, 2015. Following is a report of our audit of the Authority. 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 report of examination letter contains our findings specific to the Authority. We discussed the findings and recommendation with Authority officials and considered their comments, which appear in Appendix A, in preparing this report. Except as indicated in Appendix A, Authority officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue Authority officials raised in their response. At the completion of our audit of the six authorities, we prepared a global report that summarizes the significant issues we identified at all of the authorities audited.

¹ For the purposes of this audit, administrators are defined as the Executive Director and members of the Board of Commissioners.

Summary of Findings

Although we did not identify any inappropriate expenditures incurred by Authority administrators, we did find there were inadequate controls surrounding purchases of gift cards worth approximately \$6,300, even though a purchasing and credit card policy has been adopted. Additionally, staff at the Authority were unaware that there was a travel policy enacted by the Authority that describes travel approval procedures and allowable expenditures.

We do note that the Executive Director received compensation in accordance with his employment contract and members of the Board of Commissioners (Board) are not compensated.

Background and Methodology

Housing authorities are public corporations created by special act of the New York State Legislature, to generally provide affordable housing to citizens with lower incomes.² Funded primarily by United States Department of Housing and Urban Development (HUD) grants, most of the 141 active housing authorities (140 outside of New York City) around New York State manage both public housing units and a Section 8 housing voucher program.³

The Jamestown Housing Authority (Authority) is located in the City of Jamestown (City) and was created to address the housing needs for low- to moderate-income citizens of the City. The Authority's operating expenditures totaled \$1.2 million in 2014. These costs are funded primarily by HUD.

The Authority is governed by a seven-person Board consisting of five members appointed by the City's Mayor and two tenant members that are voted in by a group of their peers. The Board oversees the Executive Director and staff that carry out the daily duties and responsibilities of the Authority. The Authority's staff performs admissions, maintenance, property management, administrative and resident service duties.

The Authority's mission is to provide decent, safe, comfortable and affordable housing to low- and moderate-income citizens of the City. The Authority has 10 full-time employees that provide the day-to-day operational support for 246 public housing households located throughout the City and 268 Housing Choice Voucher Program participants living in private accommodations.

To complete our audit objective, we interviewed Authority officials, reviewed policies and performed testing on administrative expenditures. We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). More information on the standards and the methodology used in performing this audit are included in Appendix C 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.

² See New York State Public Housing Law, Article 13.

³ Section 8 of the federal Housing Act of 1937 authorizes the payment of rental housing assistance to private landlords on behalf of low-income families, the elderly and the disabled through the Housing Choice Voucher Program.

Audit Results

The Board is responsible for the management of Authority funds, including providing appropriate direction and oversight to ensure that funds are expended for only legitimate purposes and in accordance with the Board's directives. Costs incurred by the Authority should be both necessary and reasonable for the day-to-day operation of the Authority and in support of fulfilling its mission. This includes expenditures related to, or on behalf of, administrators at the Authority as well as any compensation provided for services rendered.

Credit Card Expenditures – The Authority and its Board should implement policies and procedures to ensure that credit card use is appropriately restricted to authorized cardholders and used exclusively for allowable and reasonable Authority mission-related expenditures. Associated expenditures should be consistent with the Authority's procurement policy, require the cardholder to provide adequate documentation and review of expenditures and ensure appropriate supervisory authorization of charges prior to payment.

We found the Authority has adopted and implemented policies and procedures designed adequately address these criteria. As a result of our testing, however, we found that the Authority has purchased approximately \$6,300 in gift cards with values ranging from \$20 to \$50, primarily from Walmart, over the scope period of our audit. These gift card purchases did not have documentation as to the purpose of the gift cards and who received the gift cards. Authority officials stated that the gift cards were used primarily for three purposes:

- The Authority purchased \$50 gift cards for employees around the holidays instead of providing a gift to employees. Officials explained this was a Board-approved practice, but were unable to provide documentation supporting this assertion.⁴
- The Authority holds a summer picnic and winter holiday party for residents and uses gift cards as door prizes and game prizes for tenants who attend these events.
- Tenants volunteer to become tenant captains who have specific duties, such as providing information to other tenants on their floor, and according to Authority officials, the gift cards are provided annually as a thank you for the services provided.

By not having the necessary supporting documentation, examiners could only determine (based on previous holiday party and picnic fliers provided) that gift cards were offered as door prizes. There was no documentation as to who won those gift cards at those events and no documentation was provided as to who received the other gift cards purchased. As gift cards are a high-risk item due to the ability of anyone to use them, there is the possibility that gift cards purchased by the Authority are not being used for their intended purpose.

We do note that in our testing of all major credit card transactions paid during our audit scope period, transactions were restricted to authorized cardholders, the transactions had receipts provided, and transactions were reviewed and appropriately authorized prior to payment.

⁴ For purposes of this Report, we have assumed the legal propriety of providing gift cards in this amount to Authority employees as tokens of appreciation (for general information on this, see <http://www.osc.state.ny.us/localgov/audits/publicauth/2013/watertownhousing.pdf>).

Travel Expenditures – Adequate controls over travel by Authority staff are required to ensure travel costs are reasonable and for a business purpose. The Authority’s travel policy should establish reimbursable expenditures and delineate expenditure limitations. Further, the policy should confirm pre-approval requisites, list documentation requirements to support expenditure verification and reconciliation and provide for supervisory review prior to payment of travel-related expenditures.

Although we found the Authority has adopted and implemented travel policies and procedures to adequately address these criteria, the staff were not aware of the existence of the policy. However, the Authority had limited travel during our audit scope period, and in our testing of travel-related expenditures paid during our audit scope period for Authority executives and Board members, travel expenditures appeared to have a business purpose and were reasonable in nature. Further, all travel expenditures were appropriately reviewed prior to payment.

Although we found that there was no inappropriate travel expenditures incurred during our scope period, there is the risk that, without an established policy, inappropriate expenditures could be incurred when employees are required to travel. As staff turnover occurs, it is likely that new employees will need to be sent to conferences for new training and could incur unreasonable expenditures due to the lack of guidance in place.

Executive Compensation – Authority employment contracts should manifest the best interest of taxpayers and compensation should be limited to what is specifically stated in those contracts. Contracts or agreements with administrators should be approved by the Board and should establish total compensation including all benefits and to be provided.

We found the Board has approved an employment contract with the Executive Director, clearly establishing total compensation including all benefits and accommodations to be provided under the agreement. Our testing of earnings records, employee benefit disbursements, credit card charges, vendor payments, Section 8 rental payments and rent rolls did not identify any compensation that was not specifically provided for in the contract.

Board Member Compensation – The compensation of board members should conform to limitations imposed by State and/or federal law and regulations. Total compensation includes the value of all wages and benefits. The New York State Public Housing Law authorizes a board chairperson to receive a maximum of \$2,500 a year in compensation while board members are allowed \$2,000. Federal agreements⁵ also stipulate that any revenues associated with a federal housing project cannot be used for compensating board members.

We found that the Authority provided no compensation to Board members during our audit scope period. Further, our audit testing of earnings records, employee benefit disbursements, credit card charges, vendor payments, Section 8 rental payments and rent rolls did not identify any compensation paid to Board members.

⁵ Consolidated Annual Contributions Contract, Part A, Section 14; signed by HUD and the Authority

Recommendations

The Executive Director should:

1. Implement procedures to track the purchase and use of gift cards to ensure that they are being used for intended purposes.
2. Make staff aware of the travel policy and the policy should be updated regularly, as needed.

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. 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.

We thank the officials and staff of the Authority for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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

JAMESTOWN
HOUSING
AUTHORITY

CATHERINE WAY
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July 15, 2016

Mr. Jeffrey Mazula, Chief Examiner
Regional Office of the State Comptroller
Division of Local Government
295 Main St., Ste. 1032
Buffalo, NY 14203-2510

Re: Audit Report No.: S9-15-74

Dear Mr. Mazula:

As a result of the audit conducted in September, 2015, by members of the Office of the New York State Comptroller, the following pages shall constitute the Jamestown Housing Authority's (JHA) official Audit Response Letter and Corrective Action Plan. The basis for this combined report can be found in the handbook entitled *Responding to an OSC Audit Report*, dated October of 2015.

FINDING NO. 1: Inadequate Gift Card Documentation.

The JHA acknowledges a lack of proper support documentation related to gift cards purchased for special occasions, special recognitions, and as substitutes for traditional holiday gifts to employees. While no improprieties were substantiated by the OSC Audit Team, JHA Management better understands the importance of clearly documenting such purchases following insightful conversations with said Team's members. Given this understanding, corrective action has been implemented whereby every recipient of a JHA-purchased gift card is now required to acknowledge receipt through his or her personal signature and date. In addition, the practice of distributing holiday gift cards to all full-time employees will be abandoned. In their place, Management hopes to revive the practice of distributing reasonably priced holiday hams to each employee as a gesture of gratitude for a job well done. Should however the OSC find continued fault with this revised practice, it too shall be discontinued in the name of ending all inappropriate or questionable employee compensation.

In a relevant side note regarding the continued purchase and distribution of gift cards to residents, Management believes that this practice yields benefits that far exceed the monetary cost involved. The ‘volunteer’ services rendered in exchange for these tokens of appreciation, do in fact result in improved tenant security and workplace efficiency. Likewise, the cards that are given during seasonal events, provide a positive boost to the management/resident relationships that are so critical to maintaining a healthy social environment.

FINDING NO. 2: Employee Unfamiliarity with Travel Policy

In Management’s view, this finding is for all intents and purposes, unjustified. To state that JHA employees are not familiar with the guidelines concerning out of area travel, is simply not accurate. Regardless of the specific responses that were apparently allegedly given during the Audit Team’s visit, adequate opportunity does exist and has always existed for any individual under the JHA’s employ to review the guidelines concerning reimbursement, limitations, and authorization. These and other essential details are contained within Paragraph XVIII of the agency’s Personnel Policy, which is, and has always been, conspicuously placed in the Main Office where each and every employee has redi-access on a daily basis.

Note 1

As the Draft Audit Report clearly states, “all travel expenditures were appropriately reviewed prior to payment”. As is also stated, “...no inappropriate travel expenses (were) incurred during our scope period...”. The language that followed included an unfortunate choice of the phrase “due to the lack of guidance in place”. Once again, Management begs to differ that the current travel guidelines fall short of their intended purpose. Each and every occurrence involving employee travel takes into account a) the necessity of the travel; b) the overall cost of the travel; and c) the anticipated benefit of the travel. These topics are discussed with the employee in advance, and a determination is arrived at based upon the best interests of the agency as a whole.

If there has been an oversight regarding employee travel, the problem lies squarely on the shoulders of the Executive Director, who incidentally also serves as the Board Secretary. In this latter capacity, errors of omission have been committed whereby Board Approval of forthcoming travel plans was inadvertently left out of the Meeting Minutes. This preventable error has now been identified and every effort will be made to avoid this mistake in the future. At the same time, Management does not plan to revamp the language found in Paragraph XVIII, nor are there any immediate plans for constructing a separate, stand-alone Travel Policy based upon the Audit Team’s suggestion.

JAMESTOWN HOUSING AUTHORITY

In closing, it should be stated for the record that plans call for sharing this written response with each and every member of the JHA's Board of Commissioners. Following a reasonable opportunity for each member to comment, a request will be made to approve the contents of the report (with or without alterations) as the Board sees fit. This vote should take place on Thursday, August 25, 2016, the date of the next regularly scheduled meeting. Following the completion of this session, the Office of the State Comptroller shall be forwarded a copy of the membership's vote along with a finalized report incorporating all comments, questions and concerns brought forward by the governing members.

Respectfully yours,

Jeffrey McCheskey
Executive Director/Secretary
Jamestown Housing Authority

cc: Catherine Way, Board Chair

APPENDIX B

OSC COMMENT ON THE AUTHORITY'S RESPONSE

Note 1

Office of the State Comptroller (OSC) examiners requested a copy of the travel policy from Authority staff when all other requested policies were being provided. The Authority staff member told examiners that they were unaware that a travel policy existed. When OSC examiners followed up with the Executive Director, Authority staff subsequently found the travel policy, and OSC examiners documented it.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We reviewed the Authority's administrative costs for the period January 1, 2012 through August 13, 2015. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Authority officials and staff to gain an understanding of the Authority's policies and procedures associated with the authorization and payment of administrative expenditures.
- We obtained all Authority credit card statements for the audit scope period and determined whether all purchases were accompanied by appropriate supporting documentation and whether purchases, approvals and payment were in compliance with Authority policy and in accordance with the Authority's mission statement.
- We obtained all expenditure report documents for staff identified by our credit card testing as having incurred travel expenditures paid for by the Authority. We reviewed and summarized all staff travel and selected all travel costs of the Executive Director and other staff for audit testing due to the limited amount of travel. We determined whether the travel had been preauthorized and properly documented and whether the individual elements of the travel cost were in compliance with the Authority's travel policy.
- We obtained copies of employment contracts and Board resolutions relating to compensation and reconciled approved compensation to Authority payroll records.
- We judgmentally reviewed a sample of Authority disbursements related to health benefits by selecting a different month in each year for three years and reviewed the annual report on retirement benefits in each year of the scope period to determine whether expenditures were in compliance with regulations and Authority policy.
- We obtained the Authority's auto insurance policy and determined whether the listed vehicles were used directly in the performance of the Authority's mission.
- We selected a judgmental sample of 10 vendors from Authority records based on the likelihood that personal expenditures could be incurred on behalf of administrators at that vendor and judgmentally reviewed a sample of invoice charges based on dollar value and month incurred to determine whether the charges had a legitimate business purpose.
- We reviewed Authority disbursements to Section 8 lessors to determine whether any related to administrators or commissioners.

- We reviewed Authority rental logs to determine whether any rental units were being provided to administrators or commissioners on a subsidized basis.

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.