



Amsterdam Housing Authority Claims Processing and Related Not-for-Profit Corporations

Report of Examination

Period Covered:

January 1, 2011 — November 30, 2012

2013M-126



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2013

Dear Housing Authority Officials:

A top priority of the Office of the State Comptroller is to help public authority officials manage authorities efficiently and effectively and, by so doing, provide accountability for tax 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 operations and Board governance. Audits also can identify strategies to reduce authority costs and to strengthen controls intended to safeguard local authority assets.

Following is a report of our audit of the Amsterdam Housing Authority, entitled Claims Processing and Related Not-for-Profit Corporations. 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 public 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 Amsterdam Housing Authority (Authority) is located in the City of Amsterdam (City) in Montgomery County. The Authority was established pursuant to Section 428 of the Public Housing Law to provide low-rent housing for qualified individuals in accordance with relevant provisions of State Public Housing Law, and the rules and regulations prescribed by the Federal Department of Housing and Urban Development (HUD). The Authority's 2012 fiscal year operating expenditures totaled approximately \$3.6 million. These costs were funded mainly by rental income from tenants and subsidies from HUD.

The Board of Commissioners is comprised of seven Commissioners: five appointed by the City Mayor and two elected by the tenants. The Board is responsible for the general management and control of the Authority's financial affairs. The Authority generally operates independently of the City, managing its own operational and financial affairs. The Executive Director (Director) is the Authority's chief executive officer. The Authority contracts with an accounting firm to provide accounting services.

The Authority also established two not-for-profit corporations: Rivercrest Development Corporation (RDC) and Rivercrest Commons to provide additional affordable housing to those within the community.

Scope and Objective

The objective of our audit was to examine internal controls over selected Authority financial operations for the period January 1, 2011, to November 30, 2012. Our audit addressed the following related questions:

- Are claims thoroughly audited prior to payment?
- Did the Board oversee financial transactions with the related not-for-profit corporations to ensure that they were appropriate?

Audit Results

The Board does not audit claims and has not designated a claims auditor to perform this function. Instead, the Executive Director audits the claims, including payments made for the reimbursement of his own travel costs. Although our review of claims did not identify significant discrepancies, when claims are not properly audited by the Board, the risk is increased that payments could be made for improper purposes.

The Authority has not been collecting the annual management service fees as stipulated in the contract with RDC. As of August 31, 2011, RDC owed \$255,861 in cumulative service fees to the Authority. While RDC made a payment of \$221,442 to the Authority on September 14, 2011, as of December 31, 2012, it had not made additional payments and still owed an outstanding balance of \$118,520. The Board's failure to collect a significant receivable balance has the potential to overstate the Authority's assets and equity, and mislead the Board as to the Authority's actual financial condition.

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 Amsterdam Housing Authority (Authority) is located in the City of Amsterdam (City) in Montgomery County. The Authority was established pursuant to Section 428 of the Public Housing Law to provide low-rent housing for qualified individuals in accordance with relevant provisions of State Public Housing Law, and the rules and regulations prescribed by the Federal Department of Housing and Urban Development (HUD).

The Authority's 2012 fiscal year operating expenditures totaled approximately \$3.6 million. These costs were funded mainly by rental income from tenants and subsidies from HUD. The Authority maintains 265 public housing units and administers 387 Section 8 Housing Choice Vouchers.

The Board of Commissioners is comprised of seven Commissioners: five appointed by the City Mayor and two elected by the tenants. The Board is responsible for the general management and control of the Authority's financial affairs. The Board appoints an Executive Director who is the Authority's chief executive officer and responsible for the Authority's day-to-day operations. The Authority contracts with an accounting firm to provide accounting services.

The Authority also established two not-for-profit corporations: Rivercrest Development Corporation (RDC) and Rivercrest Commons to provide additional affordable housing to those within the community. According to the Authority's Executive Director, RDC's Board of Directors is currently composed of the Authority's Executive Director and two additional members¹ of the Authority's Board. Rivercrest Commons' Board of Directors is currently composed of the Authority's Executive Director and two other individuals.² Rivercrest Commons had no employees during our audit period.

Objective

The objective of our audit was to examine internal controls over selected Authority financial operations. Our audit addressed the following related questions:

- Are claims thoroughly audited prior to payment?

¹ RDC is governed by a Board of Directors consisting of three to nine persons, the majority of whom are appointed by the Amsterdam Housing Authority.

² Rivercrest Commons is governed by a Board of Directors consisting of three to 11 persons, all of whom are elected by the Corporation's members. Rivercrest Commons has only two members: RDC and Montgomery County Transitional Services.

- Did the Board oversee financial transactions with the related not-for-profit corporations to ensure they were appropriate?

**Scope and
Methodology**

We examined the Authority's claims processing and financial transactions with the related not-for-profit corporations for the period January 1, 2011, to November 30, 2012.

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.

**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 expenses 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 authorizing payment or appoint a claims auditor to do so on its behalf.

The Board does not perform an audit of claims and has not designated a claims auditor to perform this function. Instead, while manually signing the associated checks, the Executive Director audits the claims. During this process, the Executive Director also audits claims for the reimbursement of his own travel costs. Since he has a direct interest in these payments, his objectivity and independence is compromised while conducting the audit of these particular claims. When the Board does not ensure that a deliberate, thorough and independent audit of claims is performed, there is an increased risk that improper payments may result.

We randomly selected 50 checks totaling \$50,764 from the operating checking account to determine whether they were properly supported and for an appropriate Authority purpose. Except for limited, immaterial issues that we addressed with Authority officials, the claims were properly supported and for appropriate Authority purposes.

During our audit period, the Authority incurred travel charges totaling nearly \$15,000. Since many of these were incurred by – and often reimbursed to – the Executive Director, who is responsible for their audit and approval for payments, there is an increased risk associated with these transactions. We selected the 10 highest travel reimbursements paid to Authority employees during our scope period, identified the conference involved, and reviewed all claims associated with each particular conference in our sample for legitimacy.³ We examined 23 claims totaling \$10,826 to determine if travel was appropriate and supported by sufficient documentation and found no significant deficiencies.

Recommendation

1. The Board should perform a deliberate and thorough audit of claims prior to payment or designate someone independent of the purchasing process as a claims auditor to perform this function.

³ Claims reviewed were for transportation, hotel, meals or per diems, and conference registrations.

Related Not-for Profit Corporations

The Board should monitor the Authority's financial transactions with the two related not-for-profit corporations, Rivercrest Development Corporation (RDC) and Rivercrest Commons, to ensure that the Authority is not subsidizing the not-for-profit corporations' operations and that Authority resources are safeguarded. The Authority had a management services agreement with RDC and made a Board-approved donation to RDC totaling \$25,000 during our audit period. Through the management services agreement, the Authority provides management and accounting services to RDC on a fee basis. The contract stipulates that \$51,545 is a minimum charge to be paid annually before January 31, and recognizes that the Authority may be reimbursed for additional costs it incurs. Good business practices also dictate that Authority revenues be monitored and that every effort be made to collect revenues in a timely fashion.

The Authority has not been collecting the management service fees on an annual basis as stipulated in the contract with RDC. As of August 31, 2011, RDC owed \$255,861 in cumulative service fees to the Authority. We found that RDC made a payment of \$221,442 to the Authority on September 14, 2011 to pay down the outstanding balance.⁴ However, as of December 31, 2012, no additional payments had been made, and the cumulative balance owed to the Authority had increased to \$118,520.

According to the Executive Director, RDC has not made further payments to the Authority because it had declining cash balances (its cash balance had declined to approximately \$50,000 as of December 31, 2012), and it incurred substantial operating losses in 2011 and 2012.⁵ In response to the operating losses incurred by RDC in recent years and its declining cash balances, the Authority's Board of Commissioners waived the management fee for the 2013 fiscal year.

In addition, we found that the Board authorized a donation of up to \$25,000 to RDC in September 2011 to partially fund the rehabilitation of a property recently purchased by RDC. According to the Executive Director, the donation was approved because RDC was in financial difficulty. The Authority made this donation for the full \$25,000 in June 2012.

⁴ This was the only such payment made to the Authority as of December 31, 2012.

⁵ The CPA report indicates that an operating loss in excess of \$110,000 was incurred in 2011 and preliminary financial data indicates that an operating loss in excess of \$116,000 was incurred in 2012.

While the Board was presented with monthly profit and loss statements for the not-for-profit corporations, the Board's oversight of the management services contract was inadequate. The Board's failure to collect a significant receivable balance has the potential to overstate the Authority's assets and equity, and mislead the Board as to the Authority's actual financial condition. Also, when the Authority subsidizes a related entity by not collecting its service fees, waiving them, or making donations to the related entity, it may have a negative impact on the Authority's own financial condition.

Recommendations

2. The Board should closely monitor and make every effort to collect the outstanding management service fees owed to it by RDC.
3. The Board should consider the potential negative impact on the Authority's own resources before authorizing service fee waivers for its related not-for-profit corporations or donations to them.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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



AMSTERDAM HOUSING AUTHORITY
52 Division Street • Amsterdam, New York 12010

Richard K. Miller
Executive Director

Serving
the Housing
Needs of the
Community
for over 30 years

August 18, 2013

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, New York 12801-4396

Re: Amsterdam Housing Authority
Claims Processing and Related Not-for-Profit Corporations
2013M-126

Dear Mr. Leonard:

This letter is in response to the audit of the Amsterdam Housing Authority entitled Claims Processing and Related Not-for Profit Corporations that was conducted by the Office of the State Comptroller. We would like to take this opportunity to express our gratitude to the Office of the State Comptroller for their review and recommendations.

We are pleased that the audit resulted in no finding of fiscal mismanagement or inappropriate use of public funds. The recommendations made will be taken into consideration in the planning and implementation of internal controls for the Amsterdam Housing Authority.

If you need additional information regarding this response, please contact Damaris G. Carbone, Interim Executive Director of the Amsterdam Housing Authority at (518) 842-2894 ext 105. Thank you for the opportunity to respond to the audit report.

Sincerely,

Damaris G. Carbone
Interim Executive Director
Amsterdam Housing Authority



Conventional Housing Program
Phone: (518) 842-2894 • Fax: (518) 842-9526

Section 8 Rental Assistance Program
Phone: (518) 842-2907 • Fax: (518) 842-2973

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard the assets of the Amsterdam Housing Authority (Authority). To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed appropriate Authority officials and employees and performed limited tests of transactions. We also reviewed pertinent documents, such as contracts, financial records, and reports including the external audit report, respective work papers, payroll records, and travel documents. After reviewing the information gathered during our initial assessment, we determined that weaknesses in the areas of claims processing and transactions with related not-for-profit corporations were most at risk. We evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We performed the following procedures for each area:

Claims Processing

- To gain an understanding of the Authority's claims processing procedures, we interviewed Authority employees and officials.
- To determine whether purchases were generally supported and for an appropriate Authority purpose, we traced a sample of 50 issued checks totaling \$50,764 to their supporting claims. We selected our sample from the operating checking account by using a computerized random number generator.
- To determine whether direct reimbursements and related payments to Authority employees were supported and for an appropriate Authority purpose, we traced a sample of 23 checks totaling \$10,826 to their supporting claims. We selected our sample by initially choosing the 10 largest reimbursement checks to Authority employees, identifying the related conference, and including in our sample all other checks associated with the trip. This ensured that all aspects of the trip (transportation, hotel, conference registration, and per diems) were included in our audit.
- To determine whether credit card purchases were supported and for an appropriate Authority purpose, we traced a sample of five checks totaling \$4,183 issued as credit card payments to their supporting claims. We identified the five largest credit card checks paid during our scope period and selected them as our sample.

Related Not-for-Profit Corporations

- To determine the existence, nature, and extent of any payments or transactions between the Authority and the two related not-for-profit corporations (RDC and Rivercrest Commons), we interviewed Authority officials and employees concerning the Authority's management contract with RDC and any other financial dealings with the two not-for-profit corporations.

- To determine whether the Authority is subsidizing either not-for-profit corporation by paying their bills and whether the Authority is receiving all money to which it is entitled, we analyzed financial records and supporting documentation for transactions between the Authority and the two not-for-profit corporations.
- To determine whether reimbursements to officials or employees of the Authority, RDC, or Rivercrest Commons were appropriate, for a reasonable amount and supported, we traced a sample of 20 reimbursement checks totaling \$11,571 to their supporting claims. We identified the 20 largest reimbursement checks paid by RDC or Rivercrest Commons during our audit period and selected them as our sample.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller
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