



# New Rochelle Municipal Housing Authority, New Rochelle, NY

## Public Housing Program



**To:** Luigi D'Ancona  
Director, Office of Public and Indian Housing, 2APH

**From:** //SIGNED//  
Karen A. Campbell-Lawrence  
Acting Regional Inspector General for Audit, 2AGA

**Subject:** The New Rochelle Municipal Housing Authority, New Rochelle, NY, Did Not Always Administer Its Public Housing Program in Accordance With HUD's Rules and Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the New Rochelle Municipal Housing Authority's administration of its Public Housing program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.



**Audit Report Number: 2017-NY-1006**

**Date: January 31, 2017**

**The New Rochelle Municipal Housing, New Rochelle, NY, Did Not Always Administer Its Public Housing Program in Accordance With HUD's Rules and Regulations**

## Highlights

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### What We Audited and Why

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We audited the New Rochelle Municipal Housing Authority's administration of its public housing program. We selected the Authority based on a management request from the U.S. Department of Housing and Urban Development's (HUD) New York Office of Public Housing. The Authority was designated as a troubled housing authority and had indicators of noncompliance with program requirements, such as using program funds to pay for ineligible expenses. The objective of the audit was to determine whether the Authority administered its public housing program in accordance with HUD's rules and regulations.

### What We Found

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The Authority did not always administer its public housing program in accordance with HUD's rules and regulations. Specifically, Authority officials charged questionable expenditures to the program. We attributed these deficiencies to the Authority officials' failure to establish and implement adequate financial controls to ensure compliance with applicable regulations. As a result, HUD had no assurance that \$28,349 in expenditures charged by the Authority was eligible and adequately supported.

### What We Recommend

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We recommend that HUD require Authority officials to (1) reimburse the public housing program from non-Federal funds for \$15,020 in ineligible expenditures for executive staff travel, staff vacation compensation, food and beverages, and musical entertainment; (2) provide supporting documentation to justify the \$13,329 in unsupported expenditures charged to the public housing program; and (3) implement procedures and effective financial controls to ensure that all disbursements charged to the public housing program are eligible and adequately supported.

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# Background and Objective

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The New Rochelle Municipal Housing Authority was established in 1941 as a public governmental agency under New York State law to provide decent, safe, and sanitary housing for low- and moderate-income persons and families. The Authority is governed by a seven-member board of commissioners, five of whom are appointed by the city manager and two of whom are elected by the Authority's residents. In November 2016 the board appointed a new interim executive director. The executive director is responsible for supervising the day-to-day operations of the Authority. The Authority's main office is located at 50 Sickles Avenue, New Rochelle, NY.

The United States Housing Act of 1937 established the Federal framework for government-owned affordable housing and was amended by the Quality Housing and Work Responsibility Act of 1998. The U.S. Department of Housing and Urban Development (HUD) provides funding for low-income public housing units for eligible residents under the public housing program. The Authority manages 447 public housing units, which are located in three asset management projects:<sup>1,2</sup> Queens City Tower, a double building structure with 203 units; Bracey Apartments, which has 100 units among two buildings; and Hartley Houses, which has 144 units among three buildings. For fiscal years 2014 and 2015, the Authority received HUD funding to administer the following programs:

- \$4.4 million for the Public Housing program,
- \$8.3 million for the Housing Choice Voucher program,
- \$1.3 million for the Capital Fund program, and
- \$242,000 for the Resident Opportunities and Self-Sufficiency program.

The Authority is required to submit a 5-year plan which is a comprehensive guide to public housing agency (PHA) policies, programs, operations and strategies for meeting local housing needs and goals. The PHA Plan is comprised of the 5-year plan and the annual plan which is submitted by the Authority and approved by HUD. In addition, the Authority entered into a recovery agreement with HUD in December 2014 as it was considered to be a troubled housing

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<sup>1</sup> Asset management project refers to the Authority's buildings, rent, subsidy, and other program income. The Authority has three asset management projects consisting of seven building with a total of 447 Public housing units. The Authority is responsible for the management of the three projects, including capital planning, repositioning of buildings or projects, and approving budgets.

<sup>2</sup> According to HUD's Public Housing Operating Fund Program 2005 Final Rule, the central tenant of asset management is that public housing agencies must manage their properties according to an asset management model consistent with the management norms found in the multifamily management industry. The agencies must also implement project-based management, project-based budgeting, and project-based accounting, which are essential components of asset management.

authority due to a Public Housing Assessment System (PHAS)<sup>3</sup> score of below 60 and a low physical inspection score. HUD's Office of Public and Indian Housing provided the Authority with the terms of the recovery agreement, which included measures to achieve outcomes in the areas of financial management and operational oversight. As of October 25, 2016, the Authority was considered to be a standard performing housing authority with a PHAS score of 66.

The objective of the audit was to determine whether the Authority administered its public housing program in accordance with HUD's rules and regulations.

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<sup>3</sup> The Public Housing Assessment System, developed by HUD's Office of Public and Indian Housing, provides a management tool for effectively and fairly measuring the performance of a public housing agency in essential housing operations, including financial, physical, and management assessments.

# Results of Audit

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## **Finding: Authority Officials Charged Questionable Expenditures to the Public Housing Program**

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Authority officials charged \$28,349 in questionable expenditures to the public housing program. Specifically, of the \$28,349 in questionable expenditures charged to the program, \$15,020 was ineligible and \$13,329 was unsupported. We attributed these deficiencies to Authority officials' failure to establish and implement adequate financial controls over disbursements to ensure compliance with applicable regulations. As a result, HUD had no assurance that \$28,349 in expenditures charged by the Authority was eligible and adequately supported.

### **Questionable Expenditures Charged**

Contrary to Federal requirements, Authority officials charged the public housing program for \$28,349 in questionable expenditures, which included \$15,020 in ineligible and \$13,329 in unsupported expenditures. The expenditures were considered ineligible because charges made to the program were not in compliance with applicable program regulations. In addition, expenditures were considered unsupported because Authority officials did not maintain adequate supporting documentation. As a result, these ineligible and unsupported expenditures were not allowable under the public housing program.

### **Ineligible Expenditures**

Authority officials charged \$8,861 for executive staff travel and conferences, \$4,359 for staff vacation compensation, and \$1,800 for food and beverages and musical entertainment. The \$8,861 (\$3,064 + \$5,797) in executive staff travel and conference expenditures charged was paid from operating funds. These expenses were paid for the former executive director, an Authority staff member, and a board member to attend a public housing agency conference. These expenses were ineligible because they were not an allowable program expense and should be charged to the central office cost center (COCC).<sup>4</sup> The COCC staff included the Authority's former executive director and members of the board of commissioners. Therefore, the travel and conference expenditures were COCC expenses and should not have been charged to the public housing program.

Authority officials also charged \$4,359 to the public housing program for an employee's vacation compensation. This expenditure was not an allowable program expense but, rather, a COCC salary expense and was, therefore, ineligible. Although the Authority's compensation

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<sup>4</sup> A Central Office Cost Center (COCC) is the business unit within a public housing agency that is the recipient of fee income and that generates other business activity. The COCC consists of those agency activities funded through fees. Some examples of costs within the COCC include the executive director and staff, risk management staff, and corporate legal staff.

plan allowed for payment of vacation time, the Authority paid COCC expenses with program funds contrary to Federal regulations.

In addition, Authority officials charged \$300 to the public housing program for food and beverage expenditures and \$1,500 for musical entertainment costs. We found several invoices from a local delicatessen, dated October 1, October 8, and October 16, 2014, for \$300 in assorted sandwiches, chips, paper goods, soda, and ice. Our review also found that the former executive director approved a \$1,500 expenditure for a musical entertainer to perform at a restaurant located across the street from the Authority on December 8, 2014, after a board meeting at the Authority's office. The \$300 for food and beverages and \$1,500 for musical entertainment were not allowable program expenses. Authority officials did not comply with the U.S. Housing Act of 1937, section (e) (1), which provides that the HUD Secretary will establish an operating fund for the purpose of making assistance available to public housing agencies for the operation and management of public housing, including procedures and systems to maintain and ensure the efficient management and operation of public housing units. The expenditures for food, beverages, and musical entertainment do not meet regulations at 2 CFR (Code of Federal Regulations) 225 Appendix B, Section 14 entertainment, which states costs of entertainment, including amusement, diversion and social activities and any costs directly associated with such costs (such as tickets to shows, meals, lodging, rentals, transportation, and gratuities) are unallowable. As a result, these expenditures were ineligible and should not have been charged to the public housing program.

The deficiencies described above occurred because Authority officials did not establish and implement adequate financial controls over disbursements to ensure compliance with applicable regulations. As shown in the table below, a total of \$15,020 in expenditures was found to be ineligible.



| Ineligible Expenditures |                                     |   |                   |
|-------------------------|-------------------------------------|---|-------------------|
| Date of expenditure     | Description of expenditure          | Federal regulation violated                     | Amount ineligible |
| 11/25/2013              | Executive staff training and travel | 24 CFR Part 990, expense of the COCC            | \$3,064           |
| 5/14/2014               | Executive staff training and travel | 24 CFR Part 990, expense of the COCC            | 5,797             |
| 9/30/2014               | Staff vacation compensation         | 24 CFR Part 990, expense of the COCC            | 4,359             |
| 11/10/2014              | Food and beverage                   | U.S. Housing Act of 1937, section 9(e)(1)       | 300               |
| 1/09/2015               | Musical entertainment               | 2 CFR 225 Appendix B, section 14. Entertainment | 1,500             |
| <b>Total</b>            |                                     |   | <b>\$15,020</b>   |

### Unsupported Expenditures

Authority officials charged \$13,329 in unsupported expenditures associated with public relations, consulting, travel, and conferences to the public housing program. These deficiencies occurred because of weaknesses in the Authority's financial management controls over disbursements that were insufficient to ensure compliance with applicable regulations.

In August 2014, Authority officials disbursed \$1,200 for public relations expenses. However, they were unable to provide source documentation, such as invoices, receipts, or other information, to substantiate that the expenses were related to a family day event. Authority officials stated that additional support was not maintained in the Authority's files. Officials could provide only a canceled check, which had a memorandum stating that the expense was for a housing authority event.

Authority officials were unable to provide adequate supporting documentation for \$8,970 (\$7,345 +\$1,625) in consulting expenses charged to the public housing program. Specifically, the consulting expenses were questioned because of the missing documentation. During the audit, Authority officials provided documentation to substantiate the \$8,970, however the documentation was insufficient.

In addition, Authority officials were unable to provide source documentation, such as check request forms, invoices, receipts, and other evidence, to support a total of \$3,159 (\$2,963 + \$196) in travel and conference expenses charged to the program. Authority officials only provided a credit card statement without the additional supporting documentation. Therefore, the \$3,159 was considered unsupported.

These deficiencies occurred because of weaknesses in the Authority’s financial management controls over disbursements that were insufficient to ensure compliance with applicable regulations. Regulations at 24 CFR Part 225, appendix A, paragraph (C) (1) (j), provide that to be allowable under Federal awards, costs must be adequately documented. Authority officials could not provide adequate source documentation, such as invoices, receipts, or other information, to adequately support these expenditures and, therefore, provided no assurance that the expenditures were incurred for the administration of the public housing program. As shown in the table below, a total of \$13,329 in expenditures was found to be unsupported.

| <b>Unsupported Expenditures</b> |                                   |   |                           |
|---------------------------------|-----------------------------------|---|---------------------------|
| <b>Date of expenditure</b>      | <b>Description of expenditure</b> | <b>Missing documentation</b>                              | <b>Amount unsupported</b> |
| 8/13/2014                       | Public relations                  | Invoices and receipts                                     | \$1,200                   |
| 11/09/2014                      | Consultant                        | Adequate supporting documentation                         | 7,345                     |
| 11/10/2014                      | Consultant                        | Adequate supporting documentation                         | 1,625                     |
| 11/25/2014                      | Travel and conferences            | Invoices and receipts                                     | 2,963                     |
| 1/27/2015                       | Travel and conferences            | Check request forms and adequate supporting documentation | 196                       |
| <b>Total</b>                    |                                   |   | <b>\$13,329</b>           |

**Conclusion**

Authority officials did not always comply with HUD rules and Federal regulations. Specifically, they charged \$28,349 in questionable expenditures to the Authority’s public housing program. These deficiencies were attributed to Authority officials’ failure to establish and implement adequate financial management controls over disbursements to ensure compliance with

applicable regulations. As a result, HUD had no assurance that \$28,349 in expenditures charged by the Authority was eligible and adequately supported.

### **Recommendations**

We recommend that the Director of HUD's New York Office of Public Housing require Authority officials to

- 1A. Reimburse the public housing program from non-Federal funds for \$15,020 in ineligible expenditures for executive staff travel, food, beverages, and musical entertainment.
- 1B. Provide supporting documentation to justify the \$13,329 in unsupported expenditures charged to the public housing program. Any amount determined to be ineligible should be repaid from non-Federal funds to the public housing program's operating account.
- 1C. Establish and implement procedures and effective financial controls to ensure that costs charged to the public housing program are properly incurred and comply with applicable regulations.

# Scope and Methodology

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The review generally covered the period July 1, 2013, through June 30, 2015, and was expanded as necessary. Audit fieldwork was performed on-site from March through June 2016 at the Authority's office located at 50 Sickles Avenue, New Rochelle, NY.

To accomplish our audit objective, we

- Reviewed applicable HUD handbooks, guidebooks, and notices; the Authority's policies and procedures; the consolidated annual contributions contract; the recovery agreement; and settlement agreements with HUD.
- Reviewed prior OIG audit reports, HUD monitoring reports and financial reviews, and independent public accountant audit reports.
- Reviewed the Authority's accounting records and analyzed its audited financial statements and general ledgers for fiscal years 2014 and 2015.
- Interviewed HUD and Authority officials to gain an understanding of the Authority's operations and system of internal controls.
- Reviewed the Authority's board meeting minutes and resolutions.
- Selected a nonstatistica<sup>5</sup> sample of ten cash disbursements from the general ledger, which totaled \$54,782 from a universe of more than \$9.85 million to ensure the disbursements were eligible, reasonable necessary and adequately supported in accordance with applicable HUD rules and regulations.
- Tested a limited nonstatistical sample of eight general ledger accounts totaling \$62,072 from a universe of more than \$82.9 million, based on the highest dollar amounts, to determine whether the Authority spent funds in accordance with HUD rules and regulations.
- While we selected two nonstatistical samples to accomplish our objectives, the results from these samples related only to the items sampled and could not be projected to the population. Further, we relied in part on computer-processed data primarily for obtaining background information on the Authority's disbursement of program funds. We performed a minimal level of testing and found the data to be adequate for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. 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

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<sup>5</sup> A nonstatistical sample is appropriate when the auditor knows enough about the population to identify a relatively small number of items of interest. The results of procedures applied to items selected under this method apply only to the selected items and must not be projected to the portion of the population that was not tested.

objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

We determined that the following internal controls were relevant to our audit objective:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiencies**

Based on our review, we believe that the following items are significant deficiencies:

- Authority officials did not have adequate controls over program operations and safeguarding resources when they did not ensure that costs charged to the public housing program were eligible and adequately supported (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

| <b>Recommendation number</b> | <b>Ineligible 1/</b> | <b>Unsupported 2/</b> |
|------------------------------|----------------------|-----------------------|
| 1A                           | \$15,020             |                       |
| 1B                           |                      | \$13,329              |
| <b>Totals</b>                | <b>\$15,020</b>      | <b>\$13,329</b>       |

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.


# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1



RICHARD H. SMITH  
CHAIRPERSON

REV. DR. HARRY A. DAWKINS, III  
VICE CHAIRPERSON

SHEILA E. SMALL  
TREASURER

SHIRLEY OAKLEY  
SECRETARY

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BERNEL HALL  
EXECUTIVE DIRECTOR

IRA GOLDENBERG  
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November 28, 2016

Ms. Kimberly Greene  
Regional Inspector General for Audit  
Office of Audit  
New York/New Jersey Region 2  
26 Federal Plaza, Room 3430  
New York, NY 10278

**RE: 2016 OIG Audit Report Findings Draft Report #2017-NY-100X  
Low-Rent Housing Program - NRMHA Response**

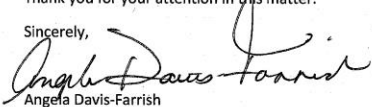
Pursuant to the above captioned matter, please be advised that the Housing Authority's response is as follows:

The Authority concurs with the Finding. The Authority will reimburse the Public Housing Program from its non-Federal funds in the amount of \$15,020.00, deemed by your office as ineligible expenditures. Pursuant to our teleconference of today, upon receipt of documentation from your office, the Authority will use its best efforts to provide supporting documentation to justify the \$13,329.00 in unsupported expenditures.

In reference to financial controls, the Authority has already begun, and will continue to implement procedures and effective financial controls to ensure that all disbursements charged to the Public Housing Program are eligible and adequately supported.

The Housing Authority extends its gratitude to the Office of Inspector General for interest in our programs, the professionalism of its staff and for its efforts to improve our operations. The Housing Authority is prepared to work with the New York Field Office to implement any appropriate recommendations designed to improve service to our residents and community stakeholders.

Thank you for your attention in this matter.

Sincerely,  
  
Angela Davis-Farrish  
Interim Executive Director



## **OIG Evaluation of Auditee Comments**

Comment 1 Authority officials agree with the finding and should work with HUD during the audit resolution process to ensure the recommendations are adequately addressed.