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April 21, 2003

Ms. Judith A. Calogero  
Commissioner  
NYS Division of Housing and Community Renewal  
Hampton Plaza, 38-40 State Street  
Albany, New York 12207

Re: Report 2003-F-1

Dear Ms. Calogero:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the New York State Division of Housing and Community Renewal as of February 26, 2003, to implement the recommendations contained in our audit report, *Energy Conservation In Housing Developments* (Report 2000-S-6). Our report, which was issued on March 14, 2001, evaluated the potential for savings in energy costs at public housing developments.

**Background**

The Division of Housing and Community Renewal (DHCR) is responsible for formulating New York State (State) policy for housing development and financing, maintaining the State's low- and middle-income housing stock, and providing technical assistance to communities for housing and community revitalization. DHCR is responsible for monitoring and supervising about 227 housing developments under the Mitchell-Lama program. These housing developments are owned privately by housing companies that were organized to build and operate them. DHCR is responsible for overseeing the housing companies' financial and operating practices and for recommending improvements for any deficiencies found.

Many of the State's housing developments are in need of extensive repair and improvement. In addition, the maintenance and operating costs of most housing developments in the State housing portfolio have risen so much that rental income and State subsidies cannot meet expenses. Energy costs have become a significant component of these expenses, which housing and ownership organizations estimate to be as high as 40 percent of total maintenance and operating costs.

## **Summary Conclusions**

In our prior audit, we estimated that savings of as much as \$16 million a year could be realized if buildings heated by electricity were converted to gas heating systems and if better energy management practices were adopted by housing companies that heat their buildings with gas or oil. For example, we estimated that at least \$500,000 a year could be saved if these companies took advantage of energy deregulation and purchased fuel on the open market. We recommended that DHCR monitor the housing companies' energy costs more closely and provide guidance to companies seeking to reduce their energy costs.

In our follow-up review, we found that DHCR officials have made progress in implementing our prior audit recommendations.

## **Summary of Status of Prior Audit Recommendations**

Of the seven prior audit recommendations, DHCR officials have implemented five recommendations and partially implemented two recommendations.

## **Follow-up Observations**

### **Recommendation 1**

*Implement procedures to assess the cost-benefits of converting the heating systems of buildings from electricity to another energy source. At a minimum, obtain feasibility studies for each project being considered for heating system conversion. Track actual costs to determine the extent to which projected cost savings were achieved.*

Status - Partially Implemented

Agency Action - DHCR notified housing companies that energy conservation measures need to be implemented and requested that all housing companies pursue complete energy conservation measures (e.g., replace windows, caulk leaks, install low-energy lighting), not just conversions of heating systems. DHCR also provided energy management training to housing companies.

DHCR recommended that the housing companies work with the New York State Energy Research and Development Authority (NYSERDA) to identify energy-saving measures. Under this arrangement, a NYSERDA consultant visits the housing development to determine whether an energy audit is warranted. The housing company engages an outside consultant (engineering firm) to perform the audit, seeking to identify energy conservation measures that might be advisable and the cost-benefits of implementing such measures. The housing company and NYSERDA share the cost of the energy audit, which also analyzes the feasibility of converting electrical heating systems to another heating source. DHCR maintains copies of the resulting energy reports.

DHCR is currently tracking 90 housing developments that are in various stages of pursuing energy conservation measures. This includes 26 developments that are heated with electricity. The use of alternative heating sources is being considered for 16 of these, but no conversion has yet been completed. Therefore, DHCR does not know whether the projected cost savings could be achieved through such conversions.

### **Recommendation 2**

*Explore the feasibility of converting the heating systems of the remaining housing companies that use electric heat to another energy source.*

Status - Implemented

Agency Action - As previously discussed, DHCR has requested that all housing companies pursue complete energy conservation measures, including system conversions. An energy audit is required for determining the cost-benefits of instituting the measures identified.

### **Recommendation 3**

*Work with housing companies to identify potential sources of public funding for energy conservation projects.*

Status - Implemented

Agency Action - DHCR officials informed us that they routinely work with the housing companies to identify potential sources of public funding for energy conservation projects. At this time, NYSERDA is the only viable source of public funding. DHCR officials also indicated that the housing companies' reserve funds are to be used, before other funds are committed, to institute any energy conservation measures. However, with many housing companies lacking sufficient reserve funds, DHCR officials questioned whether they could implement the measures identified.

### **Recommendation 4**

*Implement procedures to identify housing companies that are high energy users and take steps to ensure that housing companies implement effective energy management practices.*

Status - Partially Implemented

Agency Action - DHCR tracks the energy consumption of housing companies and analyzes the data to identify high-energy users. Those identified as high-energy users are further evaluated for factors that might have an impact on the data (e.g., location of project, type of housing development). After this analysis and evaluation, DHCR officials contact the housing company's managing agent to determine the energy conservation actions that have been taken, then work with the housing company to address its energy concerns. Although these procedures have evolved since the prior audit, DHCR has not formalized them in writing.

DHCR officials informed us that the procedures are a work-in-progress and said they hope to have written procedures at a later date.

DHCR has taken several steps to help ensure that housing companies implement effective energy management practices: DHCR provides training to the housing companies; the inspection visits to the housing companies also include a review of energy conservation practices; and a new Managing Agent evaluation form containing a section regarding the housing representatives' review of energy conservation practices has been implemented.

#### **Recommendation 5**

*Have qualified DHCR personnel conduct periodic site visits of housing companies to assess energy management practices.*

Status - Implemented

Agency Action - DHCR's housing management representatives have received energy management training, and DHCR officials informed us that they make energy conservation suggestions during their regular visits to the housing companies. When we reviewed some site-visit reports, we found that they did address energy-management issues. Housing company staff have also been provided with training so they can assess their own energy management practices more effectively.

#### **Recommendation 6**

*Provide guidance to the housing companies on using the open market to purchase oil or gas.*

Status - Implemented

Agency Action - DHCR officials have been monitoring the energy market and have recommended that housing companies not pursue the purchase of oil or gas on the open market at this time. DHCR officials informed us that the energy market is different today from the market that existed at the time of the prior audit. Noting the lack of conclusive evidence that deregulation is working and is successful, they recommended that the companies move cautiously. They assured us that they will continue to monitor the energy market for signs of more-encouraging conditions, and will advise housing companies accordingly.

#### **Recommendation 7**

*Take steps to ensure that energy consumption reports prepared by the housing companies are accurate and correctly reflect energy consumed.*

Status - Implemented

Agency Action - DHCR requires housing companies to submit energy bills that support the amounts included on their energy consumption reports. The bills are also useful when DHCR

analyzes energy use by housing companies and seeks to trace unusual charges. Our test comparison of some energy bills with consumption reports verified the accuracy of the reports.

Major contributors to this report were Christopher James, David Louie, and Howard Feigenbaum.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Division of Housing and Community Renewal for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Frank J. Houston  
Audit Director

cc: Katie Meyer, DHCR Internal Control Officer  
Deirdre A. Taylor, DOB