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November 2016

Robert Vyskocil, Executive Director
Members of the Board of Commissioners
Port Chester Housing Authority
2 Weber Drive
Port Chester, NY 10573

Report Number: S9-15-76

Dear Mr. Vyskocil 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 Port Chester 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 April 1, 2012 through October 8, 2015. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution.

This report of examination letter contains our findings specific to the Authority. We discussed the findings and recommendations with Authority officials and considered their comments, which appear in Appendix A, in preparing this report. Authority officials generally agreed with our recommendations and indicated they planned to initiate corrective action. 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

We identified inappropriate expenditures incurred by Authority administrators as a result of a lack of controls over healthcare benefits for Board members. A Board member was allowed to accrue a liability of \$40,000 to the Authority by not reimbursing healthcare costs as required. In addition, the Authority does not have a travel policy that governs travel undertaken by employees and administrators for training.

The Executive Director received compensation in accordance with his employment contract and members of the Board of Commissioners (Board) are not compensated. The Board has adopted and implemented policies for credit card usage to ensure that Authority funds are expended for legitimate Authority purposes and in accordance with Board directives.

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 around New York State (140 outside of New York City) manage both public housing units and a Section 8 housing vouchers program. 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.

The Authority is located in the Village of Port Chester (Village) and was created to address the housing needs for low- to moderate-income citizens of the Village. The Authority's operating expenditures totaled \$3.4 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 Village'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, operate and maintain safe and affordable housing to low-income and senior citizens of the Village. The Authority has 10 full-time employees and one part-time employee that provide the day-to-day operational support for 340 public housing households located throughout the Village. The Authority does not operate the Housing Choice Voucher Program.

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 B of this report. Unless otherwise indicated in this report, samples for testing were selected based on

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

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.

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 to adequately address these criteria. In our testing of all major credit card transactions paid during our audit scope period, transactions were restricted to authorized cardholders and appeared to be used for allowable and reasonable Authority business expenditures compliant with the procurement policy. In addition, the transactions were appropriately documented and reviewed by the cardholder and appropriately authorized by a supervisor prior to payment.

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.

We found the Authority has not adopted and implemented travel policies and procedures to adequately address these criteria. 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, without an established policy there is a risk that inappropriate expenditures could be incurred when employees are required to travel. In addition, as staff turnover occurs it is likely that new employees will be sent to 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 with administrators should be approved by the Board and should establish total compensation including all benefits 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, 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 federal law and regulations. Total compensation includes the value of all wages and benefits provided. The New York State Public Housing Law authorizes a board chairperson to receive a maximum of \$2,500 a year in per diem compensation while board members are allowed \$2,000. Federal agreements³ 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 stipends to Board members during our audit scope period. Further, we note that our audit testing of earnings records, credit card charges, vendor payments, and rent rolls did not identify any other compensation paid to Board members.

The Authority does, however, offer healthcare benefits to Board members if they reimburse the Authority for the full cost. Based on our review, we found that two Board members exercised that option. One Board member consistently reimbursed the Authority while the second Board member did not.

As a result of the lack of controls and oversight surrounding the healthcare benefits, one Board member accrued approximately \$40,000 in healthcare benefits. While serving as a Board member, the individual accrued \$26,000 in healthcare benefits (covering 17 months). After leaving the Board, a memorandum of understanding was drafted that provided continued healthcare benefits that the individual was expected to reimburse the Authority for and included provisions for the repayment of the previous balance owed. The individual did pay several months of healthcare benefits, but then stopped and accrued an additional \$14,000 in benefits (covering eight months) prior to the healthcare benefits being terminated by the Authority. As of the end of fieldwork, the \$40,000 had not been reimbursed, and the Board took action to send the account to a collection agency to recover the balance.

³ Consolidated Annual Contributions Contract, Part A, Section 14; signed by HUD and the Authority

Recommendations

The Board should:

1. Adopt and implement a comprehensive travel policy that ensures there are adequate controls and oversight of all expenditures.

The Executive Director should:

2. Put appropriate controls in place to ensure Board members are reimbursing the Authority for healthcare benefits in a timely and consistent manner.

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.

PORT CHESTER HOUSING AUTHORITY

2 WEBER DRIVE, P.O. BOX 347
PORT CHESTER, NEW YORK 10573
TELEPHONE: (914) 937-5550
FAX: (914) 937-3214

BLANCA P. LÓPEZ
CHAIRPERSON

ROBERT J. VYSKOCIL
EXECUTIVE DIRECTOR

April 15, 2016

Ms. Ann Singer
Binghamton Regional Office
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Unit Name: Port Chester Housing Authority
Audit Report Title: Housing Authority Administrative Costs
Audit Report Number: S9-15-76

Dear Ms. Singer:

The Port Chester Housing Authority (PCHA) has received the draft report of examination letter regarding the recent audit of housing authority administrative expenses and executive compensation. This letter is intended to serve as both our response to the draft report, as well as our Corrective Action Plan to address the recommendations included in the report.

In general, we are in agreement with the results and findings contained in the draft report. In addition, for each recommendation included in the report, the following is our Corrective Action Plan:

Audit Recommendations:

1. Adopt and implement a comprehensive travel policy that ensures there are adequate controls and oversight of all expenditures.
2. Put appropriate controls in place to ensure Board members are reimbursing the Authority for healthcare benefits in a timely and consistent manner.

Implementation Plan of Action:

1. On March 23, 2016, at its regular monthly meeting, the Port Chester Housing Authority Board of Commissioners passed Resolution #2016-5, which approved immediate implementation of a comprehensive Travel & Expense Policy, which ensures adequate controls and oversight of all expenditures. A copy of Resolution #2016-5 and the PCHA Travel & Expense Policy is included with this response.
2. To ensure that Board members are reimbursing the Authority for healthcare benefits in a timely and consistent manner, the Executive Director and PCHA staff



will strictly enforce the Eligibility (Section 2.1) and Cancellation of Coverage (Section 3.13) provisions of the New York State Department of Civil Service Manual for Participating Agencies (Rev. 06/01/07). These provisions clearly spell out the criteria for eligibility for such benefits, and clearly state that coverage in the New York State Health Insurance Program must be cancelled upon failure to remit payment. Effective immediately, the Executive Director and PCHA staff, under the direction of, and with full support of the PCHA Board of Commissioners, will strictly enforce these provisions, and will immediately cancel coverage upon the first missed premium payment for any Board member going forward. Copies of relevant guiding provisions cited above are included with this response.

In addition, regarding the former PCHA Board member who accrued a significant balance in unpaid healthcare benefits, as noted in your draft report, the Executive Director and PCHA Board have taken action to recover the balance. The PCHA attorney has served the former board member with a summons and complaint, commencing an action to recover the outstanding balance. PCHA will continue to aggressively pursue payment of this outstanding debt, utilizing all available avenues and resources to recoup the balance owed.

Implementation Date:

Immediately, effective March 23, 2016 for Travel & Expense Policy, and ongoing for controls to ensure reimbursement for Board member healthcare benefits.

Person Responsible for Implementation:

Robert J. Vyskocil, Executive Director

We are confident that our Corrective Actions effectively address the recommendations contained in the draft report, ensuring adequate and appropriate controls and oversight of all travel related expenditures and Board member healthcare benefits and repayments.

Sincerely,

Robert J. Vyskocil
Executive Director

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We reviewed the Authority's administrative costs for the period April 1, 2012 through October 8, 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 the travel costs of the Executive Director and other staff for audit testing. We determined whether the travel had been preauthorized and properly documented.
- 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.
- 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 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.