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OFFICE OF THE STATE COMPTROLLER

November 25, 2002

Ms. Judith A. Calogero
Commissioner
New York State Division of Housing
and Community Renewal
Hampton Plaza; 38-40 State Street
Albany, NY 12243

Re: Report 2001-F-26

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 (DHCR) as of June 4, 2002, to implement the recommendations contained in our audit report, *Selected Management Practices at Rochdale Village* (Report 98-S-2). Our report, which was issued on June 30, 1999, reviewed selected management practices of Rochdale Village, Inc., a DHCR-supervised cooperative development in Queens, New York.

Background

DHCR is responsible for the supervision, maintenance, and development of affordable low- and moderate-income housing in New York State. Rochdale Village, Inc. (Rochdale), located in the Jamaica section of Queens, is the second-largest cooperative housing corporation built under the Mitchell-Lama Law. It is governed by the Private Finance Housing Law, and is subject to oversight by DHCR, as part of that agency's responsibility for the State's middle-income housing program. Rochdale contains 5,860 residential apartments and 2 malls with 71 commercial stalls. The cooperative was built for low- and middle-income families who meet the income criteria as set by DHCR.

Summary Conclusions

In our prior audit, we analyzed a sample of recently occupied Rochdale apartments and determined that they had remained vacant for an average of 128 days between tenants. We estimated that about \$85,000 in rent was lost as a result of this inefficient practice. We also determined that, contrary to State regulations, tenants had not been selected in the order in which they applied for apartments. We further determined that Rochdale's tenant-selection practices had

avored higher-earning applicants inappropriately. We also found that improvements were needed in internal controls relating to purchasing and inventory activities. We recommended that DHCR oversee Rochdale's operations more closely.

In our follow-up review, we found that DHCR has increased its monitoring activities and that there have been significant improvements in Rochdale's management practices.

Summary of Status of Prior Audit Recommendations

Of the 12 prior audit report recommendations, DHCR and Rochdale officials have implemented 7 recommendations, have partially implemented 3 recommendations, and have not implemented 2 recommendations.

Follow-up Observations

Recommendation 1

Develop standards and milestones for apartment-restoration time frames, and ensure that Rochdale's employees and contractors comply with them.

Status - Implemented

Agency Action – Rochdale initiated a spreadsheet system to monitor progress in restoring and renting/selling vacant apartments. DHCR found that, as of January 2000, the turnaround time for this process had improved from 128 days to 54 days.

Recommendation 2

Perform a cost/benefit analysis to determine whether it may be more efficient to use Rochdale employees to restore apartments instead of outside contractors.

Status – Not Implemented

Agency Action – DHCR did not perform a cost/benefit analysis. DHCR's housing representative for Rochdale explained that Rochdale employees are union members who can perform only janitorial and minor building maintenance work. Because restoration work falls outside of their work scope, it is appropriate for Rochdale to hire outside contractors to do this work.

Recommendation 3

Monitor Rochdale's compliance with State regulations regarding minimum-and maximum-income requirements.

Status – Implemented

Agency Action – Rochdale officials, assisted by DHCR, revised the income eligibility limits to ensure compliance with State regulations. DHCR monitors compliance during its routine inspections of Rochdale’s operations.

Recommendation 4

Monitor Rochdale’s compliance with State regulations regarding apartment allocation.

Status – Implemented

Agency Action – DHCR performed a review of apartment allocation at Rochdale. The review disclosed several discrepancies. DHCR reported its findings to the appropriate Rochdale officials and, according to DHCR officials, corrective actions have been taken.

Recommendation 5

Determine why numbers had been listed in Rochdale’s Waiting List Bound Book without being assigned to applicants, and why applicants who have received these application numbers have been assigned apartments out of sequence.

Status – Partially Implemented

Agency Action – When DHCR personnel performed a “tenant selection” audit at Rochdale in May 2000, their findings were similar to ours, but they did not determine why most of the errors had occurred. However, DHCR did require Rochdale to make changes in its tenant selection process to prevent a reoccurrence of the problem.

Recommendation 6

Consider requiring Rochdale to computerize its apartment waiting list to ensure that each applicant’s status on the list for a particular apartment category can be identified clearly.

Status – Partially Implemented

Agency Action – In April 1999, Rochdale management implemented a new procedure in which all applicants are logged into one master book and then logged into a second book according to the apartment size requested, using the same number from the master book. Rochdale has not yet computerized its apartment waiting list. However, DHCR is currently testing a statewide computerization of tenant application waiting lists.

Recommendation 7

Work with Rochdale to improve the procurement planning-function so that needs are anticipated; and purchases are consolidated, bid competitively, and secured by contract, while change orders are minimized and justified.

Status – Implemented

Agency Action – Rochdale has consolidated its purchases of inventory items for plumbing, electrical, and janitorial supplies. They sent out proposals to various vendors and awarded the contracts to those vendors who submitted the lowest bids. This information has been entered into Rochdale’s automated system and its purchasing department purchases from the approved vendor list.

Recommendation 8

Ensure that Rochdale’s purchases are not made without approved purchase requisitions, and that payment is not rendered until appropriate certifications or reports are received.

Status – Implemented

Agency Action – Rochdale officials implemented an automated pre-numbered requisition system that sets limits on the amounts ordered, identifies the users, and makes each site manager responsible for the inventory at their respective sites. Rochdale’s controller also enhanced the main inventory control records to include a record of the location where the goods were received. During a field visit to Rochdale, DHCR staff found that requisitions were in order.

Recommendation 9

Specify whether bids for purchases over \$1,000 can be made over the telephone or are required to be submitted in writing. Examine the reasonableness of the \$1,000 limit.

Status – Not Implemented

Agency Action – DHCR’s housing representative for Rochdale indicated that the \$1,000 limit is not reasonable. However, no effort has been made by DHCR officials to change the related section of their *Codes, Rules and Regulations* or to specify whether the bids can be obtained over the telephone or in writing.

Recommendation 10

Instruct Rochdale not to alter pre-numbered purchase orders without documented justification and approval.

Status – Implemented

Agency Action – DHCR sent a letter to Rochdale officials instructing them not to alter pre-numbered purchase orders without documentation and approval. DHCR subsequently reviewed Rochdale orders and found no alterations.

Recommendation 11

Require Rochdale to:

- *provide an adequate segregation of duties between the ordering and receiving/inventory maintenance functions;*
- *increase the frequency of independent physical inventory counts;*
- *investigate the causes of significant variances between inventory quantities that had been recorded and the quantities that were found during physical inventory counts;*
- *reconcile the daily activity report to daily inventory withdrawal request forms and investigate any discrepancies;*
- *use pre-numbered receiving reports and inventory withdrawal forms;*
- *establish re-order points;*
- *fully document its computer system and train at least one employee to handle routine computer issues; and*
- *establish computer controls that will restrict the access of consultants, who should be able to make program changes only with the proper authorization, and should not be able to retrieve data without permission.*

Status – Partially Implemented

Agency Action – Rochdale has provided an adequate segregation of duties by limiting the functions of the stock clerk and the housing clerks. Rochdale has also increased its physical inventory counts from annually to semi-annually. The DHCR housing representative claimed the causes of the significant inventory variances have not been investigated because they could have occurred over many years and would be difficult to trace. Officials also believe that there is no longer a need to reconcile the daily activity report to daily inventory withdrawal request forms because the system has been automated and such a reconciliation is done automatically. The program adjusts the inventory level and tracks the inventory items on a perpetual basis. DHCR and Rochdale management indicated that they do not see the benefit of using pre-numbered receiving reports. They assert that the vendor delivery tickets combined with the stock clerk's verification and signature on the shipping documents, provide adequate internal control. A "low-balance" report now documents inventory items that are in low stock and need to be re-ordered. This report, which is also electronic, notes the item, the vendor, the purchase order number, and the amount ordered.

Rochdale's computer system has an on-line help feature that serves as a procedure manual. This manual can also be printed. Rochdale has trained an employee to be familiar with all aspects of Rochdale's computer system. Rochdale officials believe it is cost-effective for the

software proprietor to access the software from his office, rather than traveling to Rochdale each time the programs need to be updated and maintained.

Recommendation 12

Conduct a risk assessment of Rochdale's operation and identify areas that need additional monitoring. Convey to Rochdale's management suggestions for improvement opportunities.

Status – Implemented

Agency Action – DHCR conducts a bi-annual review of Rochdale management's performance. The purpose of this review is to assess the managing agency's adherence to the provisions of the Private Housing Finance Law, Title 9 of the New York Codes, Rules and Regulations; Division policies and procedures; and applicable Federal statutes, rules and regulations; as well as accepted housing practices.

Major contributors to this report were Howard Feigenbaum and Aurora Caamano.

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: Jack Solodow
Deirdre A. Taylor