

ALAN G. HEVESI  
COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

June 20, 2005

Mr. John A. Johnson  
Commissioner, Office of Children & Family Services and  
Chairman, Community Facilities Project Guarantee Fund  
52 Washington Street  
Rensselaer, New York 12144

Re: Community Facilities Project Guarantee Fund  
Report 2005-S-5

Dear Mr. Johnson:

According 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 audited the Community Facilities Project Guarantee Fund's (Fund) internal controls over financial operations. The objective of our performance audit was to determine whether the Fund has established an adequate system of internal controls over its basic fiscal operations. Our review covered the period January 1, 2004 through December 31, 2004.

**A. Background**

The Fund, a public-benefit corporation, was created in 1969 to guarantee loans made by the New York State Housing Finance Agency (HFA) and by lending institutions for the construction, rehabilitation and improvement of day care, residential child care and community senior citizen facilities.

The Fund has a three-member Board of Directors (Board) consisting of the Commissioner of the Office of Children and Family Services (OCFS), the Superintendent of Banking, and the Director of the Budget. Section 8724(3) of the Unconsolidated Laws of New York State indicates that the Fund shall continue until terminated by Law.

**B. Audit Scope, Objective and Methodology**

The objective of our performance audit was to determine whether the Fund has established an adequate system of internal controls over its basic fiscal operations, including accounting and information systems, budgeting, cash disbursements, equipment, payroll, purchasing, and revenue. The scope period for this audit was January 1, 2004 through December 31, 2004.

To accomplish our audit objective, we interviewed the Fund's Executive Director and the Comptroller of HFA. We also reviewed the State appropriations to the Fund and related disbursements since April 1, 1999.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to assess those operations which are included in our audit scope. Further, these standards require that we understand the Fund's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records, and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally- and statutorily-mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

### **C. Results of Audit**

The Fund was established primarily to guarantee HFA loans for day care, residential child care and community senior citizen projects. The Fund currently has no assets or liabilities and, according to its Executive Director, has had no activity in several years. The Executive Director, who is an Assistant Deputy Counsel for OCFS, further stated that the last time the Fund made any payments to HFA was during the 1980s.

During each of the fiscal years 1999-2000, 2000-01 and 2001-02, the Fund was appropriated \$2.1 million for use in case of a loan default. None of these monies were spent. Beginning with fiscal year 2002-03, the State appropriation for the Fund was discontinued.

HFA has confirmed that there are no longer any HFA loans that the Fund guarantees. It has also been several years since HFA has had any business with the Fund. We conclude that, since the Fund is no longer active and its purpose for creation has been achieved, this public benefit corporation should now be dissolved. The Board, through OCFS, is proposing to repeal the enabling legislation for the defunct Fund. It has reportedly been approved by the Governor's Office for submission to the Legislature.

**Recommendation**

*Work with Legislative officials to enact legislation to discontinue the existence of the Community Facilities Project Guarantee Fund.*

Draft copies of this report were provided to Fund and OCFS officials for their review and comment. Their comments have been considered in preparing this final report, and are included as Appendix A. OCFS officials indicated that a bill to discontinue the Fund has been introduced in the New York State Senate as Senate Bill number 5191.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Fund shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendation contained herein, and if not implemented, the reason therefor.

Major contributors to this report were John Buyce, Gene Brenenson and Charles Johnson.

We wish to express our appreciation to the management of OCFS and the Community Facilities Project Guarantee Fund for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

Frank J. Houston  
Audit Director

cc: John F. Cape, Division of the Budget  
Diana L. Taylor, Superintendent of Banking  
Alan Pfeffer, Executive Director



**New York State  
Office of  
Children & Family  
Services**

June 1, 2005

George E. Pataki  
*Governor*

John A. Johnson  
*Commissioner*

Mr. Frank J. Houston  
Audit Director  
NYS Office of the State Comptroller  
110 State Street  
Albany, New York 12236

Dear Mr. Houston:

The Office of Children and Family Services has reviewed the draft audit report 2005-S-5, regarding the internal controls over the financial operations of the Community Facilities Project Guarantee Fund. Enclosed is our response for your consideration.

**Capital View Office Park**

52 Washington Street  
Rensselaer NY 12144-2796

Sincerely,

A handwritten signature in black ink that reads "Susan A. Costello".

Susan A. Costello  
Deputy Commissioner  
for Administration

Enclosure

cc: Lynn Dobriko



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**Office of Children and Family Services  
Response to the Office of the State Comptroller (OSC)  
Draft Report 2005-S-5  
Community Facilities Project Guarantee Fund**

The Office of Children and Family Services (OCFS) has reviewed the draft audit report regarding the internal controls over the financial operations of the Community Facilities Project Guarantee Fund and offers the following response:

**Recommendation:** Work with the Legislative officials to enact legislation to discontinue the existence of the Community Facilities Project Guarantee Fund.

**OCFS Response:** The Office of Children and Family Services (OCFS) has implemented this recommendation. A bill to discontinue the Community Facilities Project Guarantee Fund has been introduced in the New York State Senate as Senate Bill number 5191.