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**New York State Office of the State Comptroller**  
Thomas P. DiNapoli

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Division of State Government Accountability

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# **Selected Aspects of Discretionary Spending**

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## **New York State Environmental Facilities Corporation**

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Report 2012-S-155

September 2014

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# Executive Summary

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## Purpose

To determine whether the New York State Environmental Facilities Corporation's discretionary spending complied with guidelines and expenses were reasonable, adequately supported, and properly approved. The audit covers the two fiscal years ended March 31, 2012.

## Background

New York State Environmental Facilities Corporation (EFC) was created in 1970 to provide low-cost capital and expert technical assistance for environmental projects in New York State. Its two major programs are the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund. These programs help communities throughout the State by lowering the costs of financing projects that prevent water pollution and provide safe drinking water.

During the audit period, we identified expenditures of approximately \$5.2 million that were discretionary in nature. Each public authority and benefit corporation should have formal policies and procedures identifying discretionary costs that are appropriate and dollar thresholds for each. In addition, the policies should include the supporting documentation and formal approvals necessary for such costs.

## Key Findings

- We sampled 152 payments totaling \$69,038 and questioned 35 discretionary payments totaling \$22,926. Included in the expenditures we questioned are payments for travel to conferences that were not properly documented in accordance with EFC procedures.
- EFC did not have written policies or procedures that identified appropriate discretionary spending, permissible dollar thresholds, necessary justifications, and required formal approvals and supporting documentation. The absence of such internal controls increases the risk that unnecessary discretionary spending that is inappropriate for the mission of EFC may occur.

## Key Recommendation

- Establish written policies and procedures for EFC discretionary spending. The policies and procedures should include (but not be limited to): the definitions of such costs, the required written justification, the dollar thresholds where appropriate, and the formal approvals and supporting documentation required.

## Other Related Audit/Report of Interest

[Battery Park City Authority Selected Aspects of Discretionary Spending \(2012 S 158\)](#)

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**State of New York  
Office of the State Comptroller**

**Division of State Government Accountability**

September 29, 2014

Mr. Joseph Martens  
Chair  
New York State Environmental Facilities Corporation  
625 Broadway  
Albany, NY 12207-2997

Dear Mr. Martens:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report entitled *Selected Aspects of Discretionary Spending*. This audit was performed pursuant to the State Comptroller's authority under Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller  
Division of State Government Accountability*

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This report is also available on our website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

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## Background

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New York State Environmental Facilities Corporation (EFC) was created in 1970 to provide low-cost capital and expert technical assistance for environmental projects in New York State. Its two major programs are the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund. These programs help communities throughout the State by lowering the cost of financing projects that prevent water pollution and provide safe drinking water.

Certain costs of a public authority or public benefit corporation pertain directly to the operating purpose of the entity. For example, a transportation authority's expense to pay for vehicle fleet maintenance is an operating cost. However, public authorities and public benefit corporations also incur "discretionary" costs to pay for expenses that indirectly support their primary operating purposes. For example, discretionary costs include expenses for travel and entertainment and employee professional development. As with operating costs, discretionary costs should relate to the mission of the public authority and be reasonable. Also, employees should use due diligence to obtain the lowest reasonable price for a discretionary item. Discretionary costs must not be incurred for the personal benefit of the board of directors, management, or staff. Each public authority and public benefit corporation should have formal policies and procedures specifying those discretionary costs that are appropriate and the allowable dollar thresholds, supporting documentation, and formal approvals that are necessary for such costs.

During the audit period, we identified a total of approximately \$5.2 million of EFC spending that was discretionary in nature. We sought to determine if EFC's discretionary costs supported its mission, were properly approved, adequately supported with documentation, and reasonable. We examined 152 payments for discretionary costs totaling \$69,038 for the two fiscal years ended March 31, 2012.

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## Audit Findings and Recommendations

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Of the 152 payments we tested, we did not question 117 of them, totaling \$46,112. However, we questioned 35 payments totaling \$22,926. Included in these expenditures were payments for travel to conferences that were not properly documented in accordance with EFC procedures. In addition, EFC did not have written policies or procedures that identified appropriate discretionary spending, the permissible dollar thresholds, necessary justifications, required formal approvals, and supporting documentation.

### Not in Compliance With Travel Procedures

We reviewed 17 payments totaling \$6,807 for travel and conferences. We questioned 12 payments totaling \$4,728 because the available documentation did not indicate that the travel was essential to EFC's mission. Nor did the documentation indicate that EFC's goals could not be accomplished by other means, such as conference calls, as required by EFC's Travel Procedures. We also noted EFC did not always receive the original receipt from the traveler for expenses he/she incurred using EFC's credit card.

### No Written Policies and Procedures

We reviewed four payments totaling \$10,100 for membership in two organizations. We question these payments because EFC could not provide any documentation to support the benefits it derived from being a member of the organizations. Although EFC officials explained that the mission of one organization is similar to that of EFC, they could not demonstrate how membership helped EFC to accomplish its primary purpose or mission. For the other membership, EFC officials stated the employee was required to be a member, but did not provide any documentation to support their statement. Further, EFC did not have any written policies or procedures showing how they determine what organizations to join or how they determine the benefits to EFC.

In addition, we questioned ten payments totaling \$3,343 because EFC could not provide adequate support for incurring the expense. Among the questionable items were advertisements in magazines such as Boating Times Long Island.

### Other Matters

We questioned several other discretionary expenditures:

- Three payments totaling \$ 3,574 were not related to EFC's primary purpose or mission. For example, EFC funds were used to purchase movie tickets for the purpose of selling them to employees. To determine whether these tickets were used for the intended purpose and that EFC was reimbursed, we reviewed the records maintained for the purchase, sales to employees, and bank deposits. We found that EFC did not reconcile the amount of tickets sold and the money collected, comingled money collected from employees with EFC's

funds, and did not always collect the full sale price. From April 2010 to December 2012, EFC purchased tickets valued at \$4,300. As of December 12, 2012, staff had deposited \$2,375 and had \$1,403.50 of tickets and cash on hand. They could not account for \$521.50.

It is unclear whether EFC should use EFC funds to purchase movie tickets or have employees spend time to administer this program, which is not directly related to EFC's primary purpose or mission. At the closing conference, EFC officials told us that the purchase of movie tickets will be discontinued.

- Six payments totaling \$1,181 were for items such as fleece pullovers and vests, a camera and memory card, and a router for their outside CPA firm. EFC indicated that the fleece pullovers and vests were to boost employee morale and to address an Office of General Services action that lowered the building temperature. These items are not directly related to EFC carrying out its mission and such purchases should be avoided.
- EFC employees are entitled to a meal per diem when they travel to a conference requiring an overnight stay. Staff is allowed to use one credit card to pay for the group even though each employee has an EFC-issued travel credit card. We noted that three travelers exceeded their per diem by a total of \$355 on three occasions in our sample. Thus, when meals are pooled on one bill, EFC cannot determine if the amounts are within the per diem.

## Recommendations

1. Establish written policies and procedures for EFC discretionary spending. The policies and procedures should include (but not be limited to): the definitions of such costs, the required written justification for them, the allowable dollar thresholds and the formal approvals and supporting documentation required.
2. Ensure travel reimbursements fully comply with EFC guidelines, particularly those pertaining to the documentation of why the travel is essential and could not be accomplished by other means.

(In their response to the draft audit report, EFC officials generally concurred with our recommendations. Officials indicated that EFC will update its written policies and procedures to include discretionary spending. In addition, officials will review EFC travel guidelines to determine where improvements can be made.)

## Audit Scope and Methodology

The audit objective was to determine whether the New York State Environmental Facilities Corporation's discretionary spending complied with its procedures and guidelines and if expenses were reasonable, adequately supported, and properly approved. The audit covers the two fiscal years ended March 31, 2012.

To accomplish our audit objective, we reviewed EFC's policies, procedures and guidelines related to discretionary spending. We also interviewed EFC officials and employees to obtain an understanding of internal control relevant to discretionary spending. We selected a judgmental sample of payments, based on the nature and amount of the transaction. We reviewed the supporting documentation for a sample of 152 payments totaling \$69,038.

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

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. 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 functions do not affect our ability to conduct independent audits of program performance.

## Authority

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The audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

## Reporting Requirements

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We provided a draft copy of this report to EFC officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of the report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the New York State Environmental Facilities Corporation 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 recommendations contained herein, and where recommendations were not implemented, the reasons why.

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## Contributors to This Report

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**Carmen Maldonado**, Audit Director  
**Robert Mehrhoff**, Audit Manager  
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## Division of State Government Accountability

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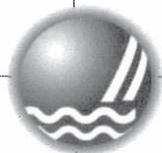
### Vision

A team of accountability experts respected for providing information that decision makers value.

### Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

# Agency Comments



New York State  
ENVIRONMENTAL FACILITIES CORPORATION

MATTHEW J. DRISCOLL, *President and CEO*

September 22, 2014

Ms. Carmen Maldonado, Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
123 William Street, 21<sup>st</sup> Floor  
New York, NY 10038

## REVISED EFC RESPONSE

Dear Ms. Maldonado:

This letter is in response to the Office of the State Comptroller's (OSC) draft report (2012-S-155) dated August 21, 2014, which summarizes results of Selected Aspects of Discretionary Spending at the New York State Environmental Facilities Corporation (EFC). During the two year audit period of April 1, 2010 through March 31, 2012, OSC identified a total of approximately \$5.2 million of EFC spending that was discretionary in nature. OSC examined 152 payments for discretionary costs totaling \$69,038 and questioned 35 payments totaling \$22,926.

### No Written Policies and Procedures

**OSC Questioned Payments** – Of the \$22,926 in OSC questioned payments, four totaling \$10,100 were for membership in two organizations. OSC questioned these payments because EFC could not provide any documentation to support the benefits it derived from being a member of the organizations. Further, EFC did not have any written policies or procedures showing how they determine what organizations to join or how they determine the benefits to EFC.

**EFC's Response** – OSC had questioned EFC's membership to the Council of Infrastructure Financing Authorities (CIFA) at a cost of \$10,000 over a two year period. While we acknowledge the need for policies and procedures regarding memberships generally, the justification for this membership should be obvious. OSC was informed that CIFA is a national non-profit association of public authorities, consultants, and bankers administering or assisting those who administer State Revolving Funds from around the country. It is also devoted to improving the awareness and understanding of SRF financing issues, events, and trends affecting states and localities. OSC was also informed that EFC manages the largest State Revolving Fund (SRF) in the nation with total program assets valued at \$12 billion as of March 31, 2014. As such, EFC's membership in CIFA plays an important role in allowing New York to remain at the forefront of current issues and trends

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in infrastructure financing and to be able to continue providing the highest quality of infrastructure financing at the very best rates to its customers. OSC had also been directed to visit CIFA's website. The website identifies CIFA's mission, vision, goals and objectives. OSC had also questioned EFC's membership in the NYS Internal Control Association at a cost of \$100 over a two year period. OSC was informed that membership in this organization allows EFC's Internal Control Officer to be aware of current issues, trends and events regarding internal controls. It also provides a library of reference materials that can be used by all EFC staff to strengthen, enhance and provide education materials regarding EFC's internal controls program. It should be further noted that the President of EFC is a board member of CIFA and that every state in the nation is a member. EFC maintains that membership in these two organizations are essential to and enhance its mission under the SRF.

OSC Questioned Payments – OSC questioned ten payments totaling \$3,343 because EFC could not provide adequate support for incurring the expense. Among the questionable items were advertisements in magazines such as Boating Times Long Island.

EFC's Response – OSC was informed that all payments have adequate support for incurring the expense. All payments have either an approved Purchase Order, an approved Voucher Form, an approved Travel/Training Conference Request Form or some other form of approval. In addition there is documentation that indicates that the goods were received or the service was performed. OSC was provided with a copy of the Clean Vessel Assistance Program (CVAP) Grant Assistance Agreement and was further informed that the payment for the advertisements in the Boating Times Long Island magazine were related to and required for EFC's work under the CVAP. This federally funded program provides for grants to eligible recipients to install pump out and dump stations to receive sewage from recreational marine vessels. Another very important component of this program is to educate and raise boater awareness regarding the benefits, use and availability of pump out stations in their area. EFC maintains that payments for the advertisements are essential to and enhance its mission under the CVAP.

Balance of OSC Questioned Payments - \$9,483

#### **Not in Compliance With Travel Procedures**

OSC Questioned Payments – OSC questioned twelve payments totaling \$4,728 because the available documentation did not indicate that the travel was essential to EFC's mission. Nor did the documentation indicate that EFC's goals could be accomplished by other means, such as conference calls, as required by EFC's Travel Procedures. OSC also noted EFC did not always receive the original receipt from the traveler for expenses he/she incurred using EFC's credit card.

EFC's Response – OSC was informed that the questioned payments were related to travel to the CIFA annual Federal Policy Conference or the SRF National Workshop Conference. These annual conferences are attended by SRF leaders and managers from across the nation, where they learn firsthand about current issues, events, and new initiatives that are affecting SRF's. Since New York manages the largest SRF in the nation, EFC staff is frequently called upon to be speakers or to participate in discussion groups. These conferences provide valuable training in many facets that managers can bring back and

apply to their programs. Although the available documentation may not have specifically indicated that the questioned travel was essential to EFC's mission, EFC's executive and senior management routinely discusses travel to conferences to determine if the travel is essential to EFC's mission or if the travel can be accomplished by other means before it is approved in accordance with EFC's Travel Procedures. OSC also notes that EFC did not always receive the original receipt from the traveler for expenses incurred. On occasion an original receipt may not have been attached due to it being lost or misplaced. On these rare occasions, EFC has been able to obtain a duplicate receipt or verify that the expense was actually incurred by other means, such as payment on EFC's corporate credit card. EFC maintains that payments for travel to the CIFA conferences are essential to and enhance its mission under the SRF.

Balance of OSC Questioned Payments - \$4,755

### **Other Matters**

OSC Questioned Payments – OSC questioned three payments totaling \$3,574 that were not related to EFC's primary purpose or mission. For example, EFC funds were used to purchase movie tickets for the purpose of selling them to employees.

EFC's Response – OSC was informed that EFC purchased movie tickets at a discount and resold them at cost to EFC staff to boost morale. According to EFC's final records \$5,097 in movie tickets were purchased and \$4,857 in cash was deposited. The difference of \$240 was the result of shipping charges in the amount of \$47 not being collected from staff as well as tickets in the amount of \$197 being provided to staff as non-cash merit awards for exemplary service or events. As indicated to OSC at the closing conference, this practice has been discontinued.

OSC Questioned Payments – OSC questioned six payments totaling \$1,181 for items such as fleece pullovers and vests, a camera and memory card, and a router for their outside CPA firm. OSC indicated that these items are not directly related to EFC's mission and should be avoided.

EFC's Response – OSC was informed that fleece pullovers and vests were purchased for employees to boost morale. This practice was discontinued in 2012. The camera and memory card were purchased at a cost of \$194. OSC staff was informed that these items are regularly used by our Engineering and Program Management staff to take pictures of projects financed during required project inspections and to document the projects' progress. The router was purchased at a cost of \$176. OSC staff was informed that the router is used to provide a wifi internet connection without having to connect to EFC's internal network. It is used by EFC's independent auditors during their field work at EFC and by visiting EPA staff and Board Members. It is also used by EFC's IT staff to troubleshoot laptop connections issues. The router is currently at our NYSERDA disaster recovery location providing internet access when our IT staff needs to visit our equipment for updating/fixing software or hardware. EFC maintains that the expenditures for the camera, memory card and router are appropriate and necessary for EFC to carry out its mission.

Balance of OSC Questioned Payments - \$0

**OSC Recommendations**

1. Establish written policies and procedures for EFC discretionary spending. EFC will update its written policies and procedures to include discretionary spending.
2. Ensure travel reimbursements fully comply with EFC guidelines. Although EFC currently believes its travel reimbursements fully comply with its guidelines EFC will review its guidelines to determine where improvements can be made.

We look forward to a continued, cooperative working relationship between EFC and OSC in the future.

Sincerely,



Matthew J. Driscoll  
President and CEO

c: Joseph Martens, EFC Board of Directors Chair