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**Thomas P. DiNapoli  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**NEW YORK STATE  
DIVISION OF HOUSING  
AND COMMUNITY  
RENEWAL**

**OVERSIGHT OF SELECTED  
PURCHASING PRACTICES  
AT ROCHDALE VILLAGE**

**Report 2007-S-19**

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## AUDIT OBJECTIVES

Our objectives were to determine whether Rochdale Village (Rochdale) procures goods, supplies, and services at competitive prices and in accordance with applicable requirements; and whether the Division of Housing and Community Renewal (Division) provides an appropriate level of oversight concerning Rochdale's purchasing practices.

## AUDIT RESULTS - SUMMARY

Rochdale management lacks assurance that they procure goods, supplies, and services at competitive prices. We found a general lack of cost consciousness on the part of Rochdale management, as demonstrated by the widespread noncompliance with competitive bidding requirements for the \$8.8 million in vendor payments included in our audit scope. Instead, Rochdale's practice has been to use selected vendors without assurance that they are charging fair and reasonable prices. Furthermore, we found there was a general lack of oversight by the Division for such expenditures.

During 2006, Rochdale made vendor payments of more than \$48 million. Our examination focused on the approximately \$8.8 million in payments to vendors primarily for the day-to-day operations of Rochdale. We found that, with minor exceptions, Rochdale does not use competitive bidding for the types of purchases included in our audit scope, regardless of the dollar threshold. We found that there is general noncompliance with competitive bidding requirements for individual purchases of more than \$1,000. In addition, during 2006, Rochdale paid 13 different vendors in excess of \$100,000 each without publicly advertising for and obtaining sealed bids, as required by the governing Regulations. In lieu of competitive bidding, Rochdale often selects vendors from an

internally-established list of preferred vendors. The Purchasing Director did not know how the list of preferred vendors originated or how vendors are added to the list.

We found that in 2006 there were 44 different vendors that received over \$30,000 without the Division's review and approval as required by the Regulations. The total payments to these vendors exceeded \$7.5 million. Our review of purchase orders found instances of where purchases were made on the same date, from the same vendor but on different purchase orders. It is not clear whether this was done to bypass Division approval.

We found that the Division has not provided adequate oversight over the types of purchases included in our audit. The Division does not ensure that Rochdale seeks competitive bids or enters into contracts to obtain goods and services at fair and reasonable prices. The Division is not aware of the vendors used by Rochdale, the methods used to select the vendors, and the related amounts paid to them.

Our report contains eight recommendations that the Division should implement to improve Rochdale's purchasing practices and to strengthen the Division's oversight. Division officials generally agreed with our recommendations and told us they believe many of them will be addressed as part of a comprehensive internal review of Mitchell-Lama program regulations and internal procedures for oversight of housing companies.

This report, dated February 8, 2008, is available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

Rochdale Village, Inc. (Rochdale) is the second largest co-op built under the Mitchell-Lama Law. Located in Queens, New York, it contains 20 buildings, 5,860 residential apartments, 2 malls with 71 commercial stores, as well as other real property. A managing agent hired by Rochdale's Board of Directors (Board) oversees Rochdale's day-to-day operations. Rochdale is governed by the Private Housing Finance Law and is subject to oversight by the Division of Housing and Community Renewal (Division) as part of that agency's responsibility for the State's housing program.

In recent years, Rochdale has experienced financial difficulties, due largely to increases in operating and energy costs. This prompted the Board to pass a series of rent increases as well as a fuel surcharge. Operating losses occurred during the two fiscal years ended March 31, 2006. For the fiscal year ended March 31, 2007, Rochdale reported net operating income of over \$1.75 million.

During 2006, Rochdale made total vendor payments of more than \$48 million. Almost \$29 million was for expenses where there is only one source, such as utilities. About \$9.7 million involved capital construction payments that were subject to a formal contract requiring Division approval. Division officials indicated to us that they are actively involved in monitoring capital

contracts. Another \$533,796 was paid to miscellaneous vendor accounts. The remaining \$8.8 million was spent on various goods, supplies, and services, most of which were subject to the competitive bidding requirements contained in the New York Code of Rules and Regulations (Regulations) for housing companies. The \$8.8 million in vendor payments, most of which related to the day-to-day operations of Rochdale, was the focus of our audit.

On March 26, 2007, the Board elected to dismiss its managing agent, who had served at Rochdale since 1993. A number of key personnel, including the Director of the Purchasing Unit, resigned shortly thereafter. As of July 2007, Rochdale had a staff of 331 who served in a variety of functions (e.g., operations, maintenance, security, management) at an annual cost of approximately \$13.2 million.

## AUDIT FINDINGS AND RECOMMENDATIONS

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### *Competitive Bidding*

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The use of competitive bidding helps ensure that an organization pays fair and reasonable prices for its goods, supplies, and services. For housing companies such as Rochdale, the Regulations set forth specific competitive bidding requirements.

The Regulations subpart 1728-4.1 (b) state that "Purchases and contracts will be awarded on the basis of competitive bidding to the fullest extent possible. The housing company must utilize competitive bidding for all its purchases or contracts in excess of ... \$1,000 for projects with 500 or more dwelling units." Additional requirements relate to high-dollar transactions. For these, the Regulations subpart 1728-4.1(e) state that "Contracts and purchases estimated to be in excess of

\$100,000 shall require sealed bids, and shall be publicly advertised not less than 20 days before the date set for the receipt of bids.” We found that, with minor exceptions, Rochdale does not use competitive bidding for the types of purchases included in our audit scope, regardless of the dollar threshold.

To test Rochdale’s compliance, we identified a total of 2,252 purchase orders from January 1, 2005, through April 30, 2007 that, individually, exceeded \$1,000. (We excluded purchase orders related to restoration work because of Rochdale’s unique arrangement for reimbursing the vendors, as explained later in our report.) We randomly selected 30 purchase orders with 30 different vendors to determine if there was any evidence that Rochdale used competitive bidding for the purchase. Only 1 of the 30 purchase orders we selected had gone through a competitive bidding process.

Rochdale officials acknowledge they generally do not make purchases using a competitive bid process. Rather, they explain, their practice has generally been to purchase from vendors, most of whom they have used for many years. To facilitate this, Rochdale maintains a list of 37 such preferred vendors, from whom they generally order recurring stock items and supplies. While use of an established vendor list may expedite the procurement process, it does not provide assurance that the price paid is fair and reasonable. Rochdale has not conducted periodic competitive bidding, or taken other steps to determine the reasonableness of the prices charged by their preferred vendors. Furthermore, Rochdale officials could not explain how these preferred vendors were initially selected. Directing business activity to the same vendors, year after year, and without establishing the reasonableness of the prices charged, is not consistent with the open, competitive process intended by the

Regulations, and does not exhibit proper cost consciousness on the part of Rochdale management.

Division and Rochdale officials state that the \$1,000 threshold is outdated and is too low. They maintain that it would be cost-prohibitive to competitively bid every item over \$1,000, especially for developments as large as Rochdale, where any one purchase can easily exceed \$1,000. Division officials stated that they are considering raising the \$1,000 threshold, especially for large housing companies such as Rochdale.

However, we found that Rochdale does not use competitive bidding even for large-dollar purchases. For calendar year 2006, we determined Rochdale paid a total of 13 different vendors over \$100,000 each, for a total of \$5.8 million. None of the vendors has a formal contract with Rochdale, and Rochdale did not publicly advertise or obtain sealed bids for any of the purchases made with these 13 vendors. There was evidence of bidding for only 1 of the 13 vendors selected; and even in this instance, only informal quotes were obtained. For the remaining 12 vendors, Rochdale could not provide documentation or explain how they selected these vendors, many of whom they have used continuously for many years. Included among these vendors are an electrical company that received \$498,118, a plumbing company that received \$287,441, a locksmith that received \$147,184, and several companies that received substantial amounts to perform restoration work.

We note that the three highest-paid vendors performed restoration work, such as painting and repairs, to ready vacant apartments for new tenants. These contractors received \$1.7 million, \$1.2 million, and \$271,000, respectively, in 2006. The two highest-paid contractors have been providing services to

Rochdale as far back as the early 1990s; the other contractor has been providing services for several years. Rochdale officials could not provide documentation that they had ever competitively bid these services. Instead, Rochdale pays these contractors based on a unit price schedule for items restored in an apartment. Rochdale officials told us that the price schedule has not changed in more than a dozen years. Rochdale officials could not explain the basis for the established prices and why the prices have not changed over the years. Given the significant payments for restoration, Rochdale officials must take steps to ensure that they are paying fair and reasonable prices and that this work is not directed to a select group of contractors, while excluding others from the opportunity to bid on such work. Also, given the consistent need for apartment restorations, Rochdale should consider whether it would be cost beneficial to provide for all or some of the restoration work with in-house employees.

We also found that Rochdale did not consolidate its purchases to provide the level of bidder competition and competitive pricing intended by the Regulations. Section 1728-4.2 of the Regulations requires that purchases be consolidated as much as possible, so that the value of the purchase is sufficient to attract bidders and obtain quality prices. Consolidation also reduces the amount of paper work and administrative burden. For 2006, we identified 15 instances involving 6 different vendors where multiple purchases were made on the same date using different purchase orders. Payments on these 15 purchase orders totaled \$690,611, including 3 different purchase orders in the amount of \$10,288, each issued on the same date, with the same vendor, for the purchase of flooring. Rochdale officials could not explain why multiple purchase orders were used for these purchases. It is not clear whether this practice was intended to bypass a requirement for

Division approval of expenditures that exceed \$30,000.

In April 2007, Rochdale officials hired a new Director of Purchasing. Actions taken by the newly-hired Director of Purchasing to make the procurement process more competitive confirm that lower prices are available for many items Rochdale routinely purchases, including:

- Counter Tops - Previously, Rochdale paid \$71.50 for each counter top. A different vendor is now providing the same counter top at \$57 each, resulting in a \$14.50 savings for each item.
- Plumbing Supplies - The Purchasing Director obtained better pricing for certain plumbing supplies. Rochdale previously paid \$16.46 for a basin P Trap and \$13.04 for a kitchen P Trap. The new prices are \$10.50 and \$8.34, respectively, resulting in savings of \$5.96 for each basin P Trap and \$4.70 for each kitchen P Trap.
- Garbage Bags - Negotiated pricing has resulted in cost savings of \$1.40 - \$3.05 per box for four types of routinely-purchased garbage bags.

We calculated that the cost savings for these seven items alone (countertops, the two P Traps, and the four different garbage bags) would have exceeded \$10,200 for calendar year 2006, based on the actual quantities purchased for that year. These limited examples highlight the risk that Rochdale has been paying higher prices than necessary, and emphasize the need to comply with Regulations and to establish cost-conscious procurement practices.

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*Division Approval and Oversight*

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The Division is responsible for overseeing the operations at Rochdale, including purchasing practices. The Regulations subpart 1728-4.1(d) state that Division approval is required for any commitment, contract, or expenditure in excess of \$30,000 for projects with 500 dwelling units or more. Division officials assert that they are actively involved in reviewing construction contracts and related payments made by Rochdale. However, we determined the Division does not provide adequate oversight for the non-construction-related, day-to-day operating and maintenance purchases Rochdale makes that were the subject of this review. We found Rochdale does not request Division approval, and the Division does not provide approval, for any contract, commitment, or expenditure related to the types of purchases included in our audit scope, regardless of the value.

We determined that 44 different vendors each received payments of more than \$30,000 in 2006, for a total payment exceeding \$7.5 million. We also identified six individual purchase orders exceeding \$30,000 that did not receive Division approval. Rochdale did not seek and the Division did not provide approval for any of these payments. Most (41 of 44) of the vendors who received payments exceeding \$30,000 in the year were also used in 2005, and many were on Rochdale's preferred vendor list. We also found the Division did not approve the establishment of such a list and is not aware of how the preferred vendors were selected, how often they were used, or the amounts paid to them.

Division officials acknowledge their lack of oversight of routine purchases, supplies, and maintenance needed for the ongoing, day-to-day operations of their housing companies, stating that they interpret the Regulations as not applicable to these types of routine

expenditures. The officials stated that they intend to clarify the Regulations to reflect this interpretation. They also take the position that the \$30,000 limit requiring approval is for an individual purchase, not multiple purchases over a period of time. In response to the draft audit report, Division officials added that "The revised regulations will reduce the level of procurement oversight, provide stronger enforcement tools, and streamline and improve enforcement of reporting requirements."

We believe the results of this audit indicate the need for increased, not decreased, Division oversight concerning the types of vendor payments included in our audit scope. In fact, at the time of our audit field work, a Division representative began reviewing purchase orders for restoration work, and raised questions regarding certain payments that exceeded \$100,000 over a one-month period. The Division needs to play a more active role in ensuring that Rochdale complies with Regulatory requirements, obtains goods and services at fair and reasonable prices, and affords more widespread access to its business opportunities.

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*Other Matters*

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Proper internal controls require that all purchase orders be accounted for and that all purchase requisitions be approved by authorized officials. Voided purchase orders should be properly accounted for. These controls are necessary to ensure that purchase orders are not diverted for possible unauthorized use.

During our review of Rochdale's database of purchase orders processed in 2006, we noted that 93 purchase orders were unaccounted for. Rochdale's accounting system did not enable us to readily determine the disposition of these 93 purchase orders and whether

payments related to these purchase orders had been made.

In another audit test, we examined a list of purchase orders processed for the period January 1, 2007, through April 30, 2007, and identified five purchase orders that were indicated as being cancelled, but were not in the file of voided purchase orders. Rochdale records reflect that payments were not made on these purchase orders.

Rochdale officials told us that printer malfunctions rendered the 93 purchase orders unusable and, as a result, they were voided. Nevertheless, there is no full accounting of the missing or voided purchase orders; and the database of purchase orders does not accurately reflect the status of all purchase orders.

#### **Recommendations**

1. Determine if the Regulations need to be updated to increase the \$1,000 threshold for obtaining competitive bids. Enforce either the existing or the revised requirement.
2. Ensure that Rochdale publicly advertises for sealed bids for purchases estimated to exceed \$100,000.
3. Assist Rochdale in determining whether use of in-house staff to perform some or all restoration work would be cost-beneficial.
4. Clarify whether the threshold amounts contained in the Regulations apply to an individual purchase or to cumulative totals for a specified period of time.
5. Ensure that any commitment, contract, or expenditure in excess of \$30,000

undergoes Division approval in compliance with the Regulations.

6. Encourage the consolidation of purchases to attract bidders and to help obtain the best prices.
7. Provide oversight for the types of vendor payments included in our audit scope.
8. Ensure the status of purchase orders is accurately reflected on Rochdale's database. Investigate whether missing/voided purchase orders were used and paid. All voided purchase orders should be clearly marked and retained.

#### **AUDIT SCOPE AND METHODOLOGY**

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited selected purchasing practices at Rochdale as well as the Division's related oversight for the period January 1, 2005, through April 30, 2007. Our audit included vendor payments for the purchase of goods, supplies, and services. We did not examine payments for Rochdale's capital construction work, utilities, and retainer agreements for legal and accounting services. We further did not examine Rochdale's miscellaneous vendor accounts, most of which were related to litigation, individual security services, and miscellaneous expenses. To accomplish our objectives, we examined expenditure data, purchase orders, and vendor files. In addition, we interviewed Division and Rochdale officials, reviewed their governing policies and procedures relating to purchasing, and reviewed and analyzed pertinent laws.

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**

The audit was performed 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.

#### **REPORTING REQUIREMENTS**

Draft copies of this report were provided to Division officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Division of Housing and Community Renewal 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 therefor.

#### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include Frank Houston, Cindi Frieder, Myron Goldmeer, David Louie, Diane Gustard, Hector Arismendi, Slamon Sawari, and Paul Bachman.

## APPENDIX A - AUDITEE RESPONSE

Eliot Spitzer  
Governor



Deborah VanAmerongen  
Commissioner

New York State Division of Housing and Community Renewal  
25 Beaver Street  
New York, NY 10004

January 22, 2008

Ms. Cindi Frieder  
Office of the State Comptroller  
Division of State Government Accountability  
123 William Street, 21<sup>st</sup> Fl.  
New York, NY 10038

Re: Audit Report 2007-S-19  
Dated December 7, 2007

Dear Ms. Frieder:

Thank you for the opportunity to respond to the recommendations of your draft audit report 2007-S-19, Rochdale Village's purchasing practices and the Division of Housing and Community Renewal's oversight of these practices. Our comments and intended actions to be taken are as follows:

1. RECOMMENDATION:

Determine if the regulations need to be updated to increase the \$1,000 threshold for obtaining competitive bids. Enforce either the existing or the revised requirement.

RESPONSE

In a field report dated March 9, 2007 DHCR directed that Rochdale obtain competitive bids for supplies and apartment restoration work. Under the new managing agent, Rochdale has begun to obtain competitive bids from vendors.

In April 2007, DHCR began a comprehensive internal review of its Mitchell-Lama program regulations and internal procedures to achieve a more strategic level of oversight of housing companies. Streamlining the procurement review process, thresholds for competitive bids, and advertising will assist DHCR in allocating staff resources strategically to highest value compliance activities.

DHCR will clarify the above position by amending the regulations to reflect the new procedures and thresholds.

Web Site: [www.dhcr.state.ny.us](http://www.dhcr.state.ny.us)  
Email address: [dhcrinfo@dhcr.state.ny.us](mailto:dhcrinfo@dhcr.state.ny.us)

2. RECOMMENDATION:

Ensure that Rochdale publically advertises for sealed bids for purchases estimated to exceed \$100,000.

RESPONSE:

Consideration of this requirement is under review as an element of our overall review and streamlining of the Mitchell-Lama program regulations.

3. RECOMMENDATION:

Assist Rochdale in determining whether use of in-house staff to perform some or all restoration work would be cost-beneficial.

RESPONSE:

DHCR agrees with the recommendation. With assistance from DHCR, Rochdale is in the process of hiring in-house electricians and plumbers.

4. RECOMMENDATION:

Clarify whether the threshold amounts contained in the regulations apply to an individual purchase or to cumulative totals for a specified period of time.

RESPONSE:

Consideration of the level and types of division approvals required for any commitment, contract, or expenditure is a key element of our overall review and streamlining of the Mitchell-Lama program regulations. Our objective will be to require division review and oversight for compliance with the regulations for all purchases and contracts.

5. RECOMMENDATION:

Ensure that any commitment, contract, or expenditure in excess of \$30,000 undergoes Division approval in compliance with the Regulations.

RESPONSE:

See DHCR's response to recommendation 1.

6. RECOMMENDATION:

Encourage the consolidation of purchases to attract bidders and to help obtain the best prices.

RESPONSE:

DHCR agrees with this recommendation. Rochdale's new managing agent has competitively bid out and has received unit prices for apartment restoration work.

Web Site: [www.dhcr.state.ny.us](http://www.dhcr.state.ny.us)  
Email address: [dhcrinfo@dhcr.state.ny.us](mailto:dhcrinfo@dhcr.state.ny.us)

7. RECOMMENDATION:

Provide oversight for the types of vendor payments included in our audit scope.

RESPONSE:

DHCR disagrees with this recommendation and intends to clarify the Regulations with respect to routine expenditures for day-to-day operations of a housing company. As stated in the response to Recommendation 1, DHCR has undertaken a comprehensive review of its procurement review process to achieve a more strategic level of oversight of housing companies. The revised regulations will reduce the level of procurement oversight, provide stronger enforcement tools, and streamline and improve enforcement of reporting requirements.

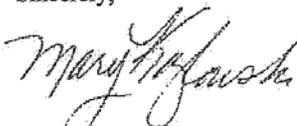
8. RECOMMENDATION:

Ensure the status of purchase orders is accurately reflected on Rochdale's database. Investigate whether missing/voided purchase orders were used and paid. All voided purchase orders should be clearly marked and retained.

RESPONSE:

The new agent at Rochdale Village has since taking over management, retrained staff and advised them not to dispose of purchase orders that were improperly filled out, cancelled, or voided. DHCR will follow-up with the housing company's agent to ensure purchase orders are properly handled.

Sincerely,



Mary Kozlowski, CGAP  
Office of Internal Audit  
518-473-8443