

#1 (Rev.1/93) SINGLE PAGE COMMUNICATION TO THE COMMON COUNCIL

TO: THE COMMON COUNCIL: DATE: January 30, 2006

FROM: DEPARTMENT: Audit and Control

DIVISION: Audit

SUBJECT: [: **BMHA Audit- 2006**

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PRIOR COUNCIL REFERENCE: (IF ANY) [: Item No. , C.C.P. / /04
Ex. (Item No. xxx, C.C.P. xx/xx/xx)

TEXT: (TYPE SINGLE SPACE BELOW)

AUDIT OBJECTIVE

As a preface we note that the audit authority of the City Comptroller as Chief Fiscal Officer rests on the provision in the City Charter and reads as follows:

"The comptroller shall have the power to conduct financial and performance audits of all agencies and other entities a majority of whose members are appointed by city officials..."

At the present time, control and management of the Authority is fixed in a Board of seven Members, five of whom are appointed by the Mayor and two of whom are elected at-large from the tenant population. Our main objective is to review internal controls at the Buffalo Municipal Housing Authority.

AUDIT METHODOLOGY

To accomplish our objective we have performed the following:

- Review purchase order policies and procedures
- Review contract and expenditure records
- Review payroll procedures
- Review Section 8 area
- Review and analyze travel of Commissioners and employees
- Miscellaneous

AUDIT FINDINGS

1. Non-compliance with internal control procedures for travel and travel related expenses, and a blatant disregard of IRS regulations and BMHA policy guidelines as well as improper use of BMHA credit cards.

There were inappropriate purchases, and in some cases complete lack of documentation, for certain commissioners' expenses.

There was unapproved extensive use of BMHA credit cards for what appears to be personal or at least undocumented expenses. The credit cards were obtained for

“emergency use” while on business travel to pay for hotel bills etc. The cards were to be kept in the BMHA safe until the date of travel.

2. BMHA pays tax on airline tickets and other travel purchases.

These purchases are tax-exempt and should have been deducted from the bills, and a tax-exempt form provided.

3. Internal Audit report recommendations were not implemented.

As per the Institute of Internal Auditors (IIA) guidelines, our audit team did review previous audits completed by the BMHA’s own internal audit function. These audits, which were thorough and complete, had specific recommendations, but these were not in most cases implemented by BMHA management or by the Board of Commissioners.

4 There was a complete lack of controls over fuel consumption for a six-month interval.

The Fuelmaster System, which is used to control the use of fuel for BMHA vehicles, was turned off when we inspected it. It was off for a period of at least six months according to the operations manager, allowing for unlimited use of the fuel from the pumps without detection or report generation. Any vehicle might have fueled up for any amount and no record would have been retained since no key was required.

The camera recordings are overwritten every four hours, and no reports on usage have been generated. The employees showed unfamiliarity with the system features.

5. Executive Director’s contracts not adhered to (a timing issue- payment for unused vacation etc. prior to departure date as stipulated in the specific contract.).

The buyback of unused vacation time prior to leaving the authority’s employ by the former Executive Director violated the terms of her employment contract.

6. Approvals by Executive Director for herself

The Executive Director’s contract also includes the stipulation that there would be “a maximum of \$2,000 annually will be allowed for an expense account.” The contract contains the unusual provision that she will authorize all payments on the expense account credit card. It’s a violation of standard internal control guidelines when a person doing the spending can also authorize payments against that spending.

7. Use of Purchase orders for small dollar expenditures, which is against BMHA policies.

We discovered Petty Cash items purchased on Purchase Orders when in fact it is policy to purchase these items via petty cash.

8. There were two errors in payroll records and approvals.

As part of a payroll review of timesheets, we reviewed the payroll records of sixty-one individuals over the span of two pay periods (over 600 transactions).

We discovered two errors: one employee was charged for four hours of personal leave as per MUNIS, a timesheet records the individual out for the entire day. Another individual was recorded off as per MUNIS on 3-31-05 when the timesheet records show that person off on 3-10-05.

9. Questioned lack of verifiable residency address for "opt out" annual payment

A random sample of 64 employees found inconsistency in residency records, suggesting there could be issues related to the "opt out" policy of the authority's residency clause that allows for employees to be exempt by paying a calculated premium each year. BMHA should review records to make sure employees who live outside the City comply with the "opt out" policy, and pay the required premium.

10. Accounts payable invoice errors noted.

Twenty-two vendors were selected at random, and each payment to those vendors was reviewed according to the audit program.

The total dollar amount of payments examined summed to \$8,117,120.17. Issues developed from the above examination were not material, and are covered in other audit comments.

This audit step did not include further testing of bidding process that may have preceded the encumbrance process.

11. The Section 8 program sample of Tenants and Landlords uncovered few issues.

We were aware of issues raised by HUD in the past (e.g. sub-lease of Executive Director's apartment and questions of a commissioner in a specific size unit, but our samples revealed only minor calculation amounts.

12. Some Tenant Education and Training self-sufficiency shortcomings

BMHA's mandate includes the development of tenant self-sufficiency. One of those areas is economic self-sufficiency.

The test scores revealed some below-par scores, which indicates that the program needs improvement in certain areas.

13. Change Order substantiation missing authorization

The examination of the change orders revealed a disturbing trend in required documentation. Fourteen change order we reviewed, and as an example, all were missing at least one authorizing signature.

RECOMMENDATIONS

1. We recommend that if there are legitimate reason for travel by commissioners, these should be reviewed by the Mayor who appoints the majority of the Board. Members may not approve their own expenses. Approvals are contingent on review of documentation, and must be in compliance with BMHA policies, as well as HUD, IRS and New York State laws and regulations.
2. We recommend that the BMHA provide support for its tax-exempt status to anyone traveling on business for the authority. Any charges for sales tax should be deducted from the payment.
3. To correct this fault, to improve overall internal control, and in recognition of IIA guidelines, the audit team recommends an Audit Committee be established in accordance of IIA Practice Advisory 1110-2. This committee should include individuals outside the BMHA structure, familiar with issues of accounting and internal control. New York State Public Authorities Law, Title 8 - Internal Control Responsibilities of Public Authorities provides additional reference on this subject.
4. We recommend training on the use of the Fuelmaster system, specifically the reports that provide for mileage, gasoline usage and times. The results would include miles per gallon statistics and audit trails for unauthorized use. These reports need to be submitted to management on a monthly basis.
5. We recommend that before making any payments for unused vacations etc., the contract terms should be checked for such provisions with the appropriate authority.
6. The Board should have the responsibility of reviewing charges of the executive director's expense account, and the Board should have approved the payments.
7. BMHA should adhere to its policy of purchasing certain items via petty cash.
8. Payroll should be reviewed and approved on a regular basis, and be subject to periodic internal audits.
9. Residency adherence needs to be validated, in a similar manner to the Federal Department of Labor I-9 form requirements. This will ensure equity in the "opt out" program, and verify that all payments owed to BMHA are realized.

10. Pre-audit of payables requires vigilance and possibly a change in procedures to accomplish this. A check-off list is included in item 10 that could be used.
11. We recommend that the Section 8 report be made available to management and the Board. The results should be reviewed at the management and possibly commissioner level to fulfill HUD goals.
12. A review of these results of self-sufficiency for tenants should be reviewed at the management, and possibly commissioner level to fulfill HUD goals.
13. We recommend that a change order policy be developed that includes detailed substantiation for unforeseen events on a project that results in increased costs. There needs to be a threshold percentage and possibly dollar amount for reintroducing a project for approval to the pertinent levels of authority. We recommend a 15% ceiling on changes as a guide for re-approval or submission for a re-bid of the additional work.

TYPE DEPARTMENT HEAD NAME: ANDREW SANFILIPPO

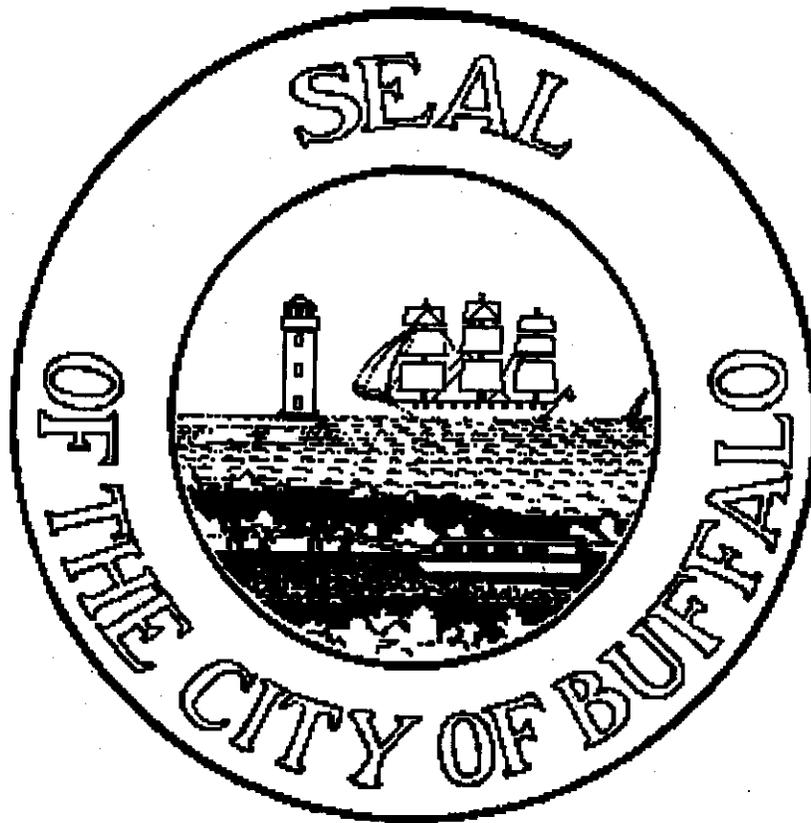
TYPE TITLE: COMPTROLLER

SIGNATURE OF DEPARTMENT HEAD

A handwritten signature in cursive script, appearing to read "Andrew Sanfilippo", written over a horizontal line.

CITY OF BUFFALO

AUDIT REPORT **Buffalo Municipal Housing Authority**



For the Period
July 1, 2003 through June 30, 2005

City of Buffalo

DEPARTMENT OF
AUDIT AND CONTROL
COMPTROLLER'S OFFICE
1230 City Hall
Buffalo, NY 14202

ANDREW A. SANFILIPPO
COMPTROLLER

FRANK BELLIOTTI
CITY AUDITOR

January 30, 2006

The Honorable Common Council of the City of Buffalo

We have performed an examination of accounts and records of the Buffalo MHA in regards to certain contracts entered into between July 1, 2003 through June 30, 2004, and present herewith our findings for the period then ended.

Our examination was made in accordance with standards established by the Institute of Internal Auditors, The American Institute of Certified Public Accountants and the United States Government Accounting Office and, accordingly, included such procedures as we considered necessary under the circumstances.

In our opinion the accompanying schedules and related comments present fairly the operations for the period then ended in conformity with generally accepted municipal accounting principles applied on a basis consistent with that of the preceding period.

ANDREW A. SANFILIPPO
COMPTROLLER

DESCRIPTION

The history of the Buffalo Municipal Housing Authority or BMHA is described in their web site as follows:

"The Buffalo Municipal Housing Authority was established on April 3, 1934, pursuant to a resolution of the Common Council of the City of Buffalo. The Authority's creation and establishment was subsequently confirmed by an Act of the New York State Legislature.

At the present time, control and management of the Authority is fixed in a Board of seven Members, five of whom are appointed by the Mayor and two of whom are elected at-large from the tenant population. A Chairman and Vice-Chairman are elected from among the Members each year."

"The Authority is responsible for the construction, rehabilitation and modernization of all low-income public housing within the City of Buffalo."

"In addition, it has the continuous responsibility for the management and operation of all such units."

Its primary source of funding is from the United States Department of Housing and Urban Development or HUD.

It is therefore subject to the laws of New York State Public Housing as well as compliance with HUD regulations.

The New York State Public Housing Law specific language is as follows:

"§ 403. Validation. The creation and establishment of the Buffalo Municipal Housing Authority under the provisions of article five of the former state housing law, together with all proceedings, acts and things undertaken, performed or done with reference thereto, are hereby validated, ratified, confirmed, approved and declared legal in all respects, notwithstanding any want of statutory authority or any defect or irregularity in such acts or proceedings."

"§ 404. Buffalo Municipal Housing Authority. The Buffalo Municipal Housing Authority is hereby constituted and declared to be a body corporate and politic with all the powers, rights and duties set forth in article five of the former state housing law. Notwithstanding any inconsistent provision of law, any member of such authority appointed or re-appointed by the mayor of Buffalo shall be subject to confirmation by a majority vote of the common council of such city."

AUDIT OBJECTIVE

As a preface we note that the audit authority of the City Comptroller as Chief Fiscal Officer rests on the provision in the City Charter and reads as follows:

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AUDIT FINDINGS

1. Non-compliance with internal control procedures for travel and travel related expenses, and a blatant disregard of IRS regulations and BMHA policy guidelines as well as improper use of BMHA credit cards.

There were inappropriate purchases, and in some cases complete lack of documentation, for certain commissioners' expenses.

There was unapproved extensive use of BMHA credit cards for what appears to be personal or at least undocumented expenses. The credit cards were obtained for "emergency use" while on business travel to pay for hotel bills etc. The cards were to be kept in the BMHA safe until the date of travel.

A concise summary of the sixteen trips taken by BMHA staff during the period of our audit revealed that ALL of the trips were missing some type of authorization or receipts or both.

BMHA's own Internal Audit Department has reported similar findings in its reports, which were filed but not acted upon by the Executive Director or the Board.

Despite numerous warnings to the Board by its own Internal Audit Department, reimbursements were made to employees and Board members with insufficient documentation, in some cases with NO documentation whatsoever.

This is a violation of sound accounting controls and is in violation of IRS regulations (purchases in excess of \$25 must have sufficient supporting documentation, and some expense is ineligible non-business related).

The Board then knowingly authorized the reimbursement of its own members for improperly documented travel related expenses. The total travel expenses reviewed for the period covered sum to \$36,010.56.

Without proper documentation, the auditor or approver is unable to determine the legitimacy of the expenditures (e.g. personal items, alcoholic beverages that are not eligible under IRS or HUD regulations).

Normally, the Board members of any City of Buffalo municipal body do not travel to conferences. We have reviewed the expenditures for a number of these agencies and authorities and found that the chief executive officer and specific key personnel of the areas covered in conferences attended.

2. BMHA pays tax on airline tickets and other travel purchases.

These purchases are tax-exempt and should have been deducted from the bills, and a tax-exempt form provided.

These costs are not large sums, nevertheless, they are indicative of the internal control problems associated with BMHA travel.

This does not help to serve the interests of the eligible housing tenants who are supported by federal funds.

3. Internal Audit report recommendations were not implemented.

As per the Institute of Internal Auditors (IIA) guidelines, our audit team did review previous audits completed by the BMHA's own internal audit function. These audits, which were thorough and complete, had specific recommendations, but these were not in most cases implemented by BMHA management or by the Board of Commissioners.

Several internal audits revealed issues, notably in the area of management travel. The BMHA board's disregard of its own audit department when the Board is the policy making function is troublesome.

4 There was a complete lack of controls over fuel consumption for a six-month interval.

The Fuelmaster System, which is used to control the use of fuel for BMHA vehicles, was turned off when we inspected it. It was off for a period of at least six months according to the operations manager, allowing for unlimited use of the fuel from the pumps without detection or report generation. Any vehicle might have fueled up for any amount and no record would have been retained since no key was required.

The camera recordings are overwritten every four hours, and no reports on usage have been generated. The employees showed unfamiliarity with the system features.

The Fuelmaster system provides key-only entry to the pumps complete with odometer reading and employee social security entry.

On September 21, 2005, the Audit Team traveled to the maintenance and repair facility of the BMHA. There, we asked for the records concerning the BMHA's Fuelmaster system and to test the actual pumps and tanks used for the storage and dispensation of gasoline. After inquiring of this employee's immediate superior, the audit team was informed that no one was informed that system was not functioning, nor was a paper or other record keeping system begun to collect gasoline usage information.

The pumps were subsequently repaired and the system began to function normally. The employee managing the Fuelmaster system did state that he asked the BMHA board for funds to have the Fuelmaster system maintained regularly. These funds were not appropriated. Management did not confirm this.

Because of the lack of Fuelmaster records and the changes that occurred during this period of time, it is impossible to determine how much gasoline may be unaccounted for. This shows a lack of diligence based on BMHA's failure in monitoring gas consumption.

5. Executive Director's contracts not adhered to (a timing issue- payment for unused vacation etc. prior to departure date as stipulated in the specific contract.).

The buyback of unused vacation time prior to leaving the authority's employ by the former Executive Director violated the terms of her employment contract.

The Executive Director had unused vacation time bought back by the BMHA twice during the period of our audit. The sum of those buybacks was \$8536.46. We verified the time in the payroll system and checked the calculation. These buybacks were improper. Her contract specifically states that "In the event of separation or termination, any unused vacation leave shall be compensated to the Executive Director at her regularly established rate of pay." (emphasis by the Audit Team) There is NO provision for a buyback occurring before separation or termination in that specific contract. The former Executive Director, however, should not refund these payments, as she would have been due these monies when she left the BMHA. The BMHA board should never have authorized these payments. Vacation buybacks by other executives were allowed by their respective contracts.

6. Approvals by Executive Director for herself

The Executive Director's contract also includes the stipulation that "a maximum of \$2,000 annually will be allowed for an expense account." The contract contains the unusual provision that she will authorize all payments on the expense account credit card. It's a violation of standard internal control guidelines when a person doing the spending can also authorize payments against that spending.

This is a poorly written provision of Ms. West's contract, and an indication that the Board was not performing its duties (We did review a sample of credit card charges and found no improper expenditures).

7. Use of Purchase orders for small dollar expenditures, which is against BMHA policies.

We discovered Petty Cash items purchased on Purchase Orders when in fact it is policy to purchase these items via petty cash.

This is not a material item, but represents a time-consuming practice, which the policy sought to eliminate.

8. There were two errors in payroll records and approvals.

As part of a payroll review of timesheets, we reviewed the payroll records of sixty-one individuals over the span of two pay periods (over 600 transactions).

We discovered two errors: one employee was charged for four hours of personal leave as per MUNIS, a timesheet records the individual out for the entire day. Another individual was recorded off as per MUNIS on 3-31-05 when the timesheet records show that person off on 3-10-05.

We consider neither of these items material, but diligence in recording and reviewing timesheets and payroll records is a critical function.

9. Questioned lack of verifiable residency address for "opt out" annual payment

Employees at BMHA are required to maintain residency within the City of Buffalo as a condition of their employment. An exemption is made for those who pay a fee to "opt out" of the residency clause, by paying an amount each year based on a specific calculation of over \$1,000.00 per year.

10. Accounts payable invoice errors noted.

Twenty-two vendors were selected at random, and each payment to those vendors was reviewed according to the audit program. Specifically, we reviewed the following issues:

Verify the computer system information matches the paper documentation

Verify that management authorized the payment

Determine if the expense was appropriate and complies with Fed/City/State regulations

Confirm that the correct account was charged for this item

Confirm no sales tax was paid on this item

Review activity for this vendor to confirm this was not a duplicate payment

Check to see if the purchase qualified for a discount, and if that discount was taken

Verify the mathematical accuracy of the supporting documents, including invoices and contracts

Confirm that all needed documentation has been retained

Determine if the item should be purchased using petty cash, a purchase or a service order and verify the correct method of purchase was used.

The total dollar amount of payments examined came to \$8,117,120.17. Issues developed from the above examination were not material, and are covered in other audit comments. This audit step did not include further testing of bidding processes that may have preceded the encumbrance process.

11. The Section 8 program sample of Tenants and Landlords uncovered few issues.

We were aware of issues raised by HUD in the past (e.g. sub-lease of Executive Director's apartment and questions of a commissioner in a specific size unit, but our samples revealed only minor calculation amounts.

The Section 8 Program is managed by the BMHA. In the Section 8 Program, a BMHA tenant moves to a property owned by a private landlord. Once moved in, BMHA pays a portion of the rent, and the former BMHA tenant pays the remainder. The formula for the amount of the tenant contribution varies, and was the most difficult portion of this review. Landlords of Section 8 Tenants were selected and an examination of the documentation supporting the payments to the landlords performed. The specific steps taken with the Section 8 landlords and the associated paperwork were as follows:

- Verify the system information matches the paper documentation

- Confirm that all needed documentation has been retained

- Determine if the expense was appropriate and complies with Fed/City/State regulations

- Verify the mathematical accuracy of the supporting documents, including invoices and contracts.

- Confirm that all needed documentation has been retained

Our supporting schedules for this audit area contains personal information covered under privacy statues and is not included in the appendices.

Our sample covered twenty-two separate landlords and twenty-five individual tenants (some landlords had more than one tenant). The total rents paid per tenant to the landlords under the Section 8 program varied from a low of \$350.00 to a high of \$675.00. Apartments varied from one bedroom through five bedrooms in size. A tenant's contribution varies in our sample from zero to \$430.00 per month. The mean total rent for our sample was \$531 dollars, of which the mean contribution per tenant was \$133 dollars.

Issues developed from the above examination were not material, and are covered in other audit comments.

12. Some Tenant Education and Training self-sufficiency shortcomings

BMHA's mandate includes the development of tenant self-sufficiency. One of those areas is economic self-sufficiency.

The test scores revealed some below-par scores, which indicates that the program needs improvement in certain areas.

A portion of economic self-sufficiency is teaching basic job skills. This BMHA does this through training classes. Classes are one day a week and are three hours long. They cover such varied topics as basic as personal hygiene through such advanced areas as Internet search techniques.

The audit team selected thirty-four students taking classes at the Price Employment Center and reviewed the associated paperwork. Pass/Fail rates are rounded to the nearest ten percent.

Reviewing student records, the classes with the lowest pass rate were:

Topic	Pass Rate
Equivalent Fractions	10
Ordering Fractions	10
Application Problems with Algebraic Expressions	20
Division of Decimal Numbers	30
Converting Fractions to Decimals	30
Multiplication of Fractions	30
Addition of Mixed Numbers	30
Measurement Application Problems	40

The classes with the highest success rate were:

Topic	Pass Rate
Calculating Sales Tax	100
Rounding Numbers	100
Multiplying Signed Numbers	100
Division of Whole Numbers	100

The "Calculating Sales Tax" class used figures from Erie County's Sales Tax rate as of 2004. There are other classes, but the Audit Team reviewed only the Math classes for this audit test. We also reviewed the student feedback forms for these classes. No instructor received poor feedback. For the period of our audit, 318 total individuals completed individual courses.

13. Change Order substantiation missing authorization

The examination of the change orders revealed a disturbing trend in required documentation.

Fourteen change order we reviewed, and all were missing at least one authorizing signature.

As part of the audit program, the audit team reviewed the contracts and other associated documents for the project "Hope Six Phase III". We reviewed \$1.7 million dollars in payments and fourteen of the one hundred and thirty existing change orders. The change orders we reviewed summed to \$75,727.72. The smallest change order we reviewed was for a credit for \$290.85. The largest was for \$16,361.55.

Change orders should be reviewed by the consultant, contractor and developer, and approved by the client (BMHA).

A change order policy would include detailed explanations of unforeseen events on a project that results in increased costs. There needs to be a threshold percentage and possibly dollar amount for reintroducing a project for approval to the pertinent levels of authority. We suggest 15% as a guide for re-approval. If the substantiation is not conclusive, then there is an inherent assumption that the bidding process is flawed. Someone may have "low-balled" their bid in an attempt to introduce a change order at a later date.

RECOMMENDATIONS

1. We recommend that if there are legitimate reason for travel by commissioners, these should be reviewed by the Mayor who appoints the majority of the Board. Members may not approve their own expenses. Approvals are contingent on review of documentation, and must be in compliance with BMHA policies, as well as HUD, IRS and New York State laws and regulations.
2. We recommend that the BMHA provide support for its tax-exempt status to anyone traveling on business for the authority. Any charges for sales tax should be deducted from the payment.
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9. Residency adherence needs to be validated, in a similar manner to the Federal Department of Labor I-9 form requirements. This will ensure equity in the "opt out" program, and verify that all payments owed to BMHA are realized.
10. Pre-audit of payables requires vigilance and possibly a change in procedures to accomplish this. A check-off list is included in item 10 that could be used.
11. We recommend that the Section 8 report be made available to management and the Board. The results should be reviewed at the management and possibly commissioner level to fulfill HUD goals.

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