



Issue Date September 20, 2006
Audit Report Number 2006-NY-1011

TO: Edward De Paula, Director, Office of Public Housing, 2FPH

FROM: *Edgar Moore*  
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: Orange City Housing Authority, Orange, New Jersey, Incorrectly Paid the City's Street Lighting Costs and Improperly Wrote-off a Receivable

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Orange City Housing Authority's (Authority) payments to and on behalf of the City of Orange (City) and the write-off of an account receivable from the City. We reviewed payments to the City because a review of the financial statements, which was done during our audit of the Housing Choice Voucher program, indicated a questionable write-off of an account receivable that was due to the low-rent housing program.

Our audit objective was to determine whether payments to the City for street lighting and a write-off of an account receivable from the City were proper.

### **What We Found**

The Authority paid for street lighting expenses, which should have been furnished by the City at no cost to the Authority. The Authority also wrote off an account receivable pertaining to the cost of the lights without

obtaining board approval. As a result, from April 2003 through March 2006, the Authority paid for the City's street lighting costs and was deprived of funds from a \$156,409 receivable, which could be used to pay for necessary operating expenses if collected.

### **What We Recommend**

We recommend that the director of the U.S. Department of Housing and Urban Development's (HUD) New Jersey Office of Public Housing instruct the Authority to record an account receivable for the \$156,409 due from the City and notify the City to pay for street lighting costs, which are the City's responsibility under the cooperation agreement.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Also, please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee Response**

We discussed the finding with Authority and HUD officials during the audit. We provided a copy of the draft report to Authority officials and discussed the report with them at the exit conference held on September 6, 2006. The Authority provided its written comments to our draft report on September 7, 2006. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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The Orange City Housing Authority (Authority) is located at 340 Thomas Boulevard, Orange, New Jersey. The Authority is headed by an executive director and governed by a board of commissioners made up of seven members. It has 390 low-rent housing units and received \$1.66 million in operating subsidies for the year ending March 31, 2006.

Our audit objective was to determine whether payments to the City of Orange (City) for street lighting and a write-off of an account receivable from the City were proper.

## RESULTS OF AUDIT

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### Finding 1: The Authority Incorrectly Paid the City's Street Lighting Costs and Improperly Wrote-off a Receivable

The Authority paid for street lighting expenses, which should be furnished by the City at no cost to the Authority. The Authority also wrote off an account receivable pertaining to the cost of the lights without obtaining board approval. We attribute these deficiencies to the Authority's failure to follow the terms of its cooperation agreement with the City. As a result, from April 2003 through March 2006, the Authority continued to pay for the City's street lighting costs and was deprived of funds from a \$156,409 receivable, which could be used to pay for necessary operating expenses if collected.

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#### **The Authority Paid the City's Street Lighting Costs**

The Authority paid a local utility company for street lighting expenses that should have been provided at no cost by the City under the terms of a cooperation agreement between the Authority and the City. From April 2003 to March 2006, the Authority paid a local utility company a total of \$74,261 for the City's street lighting expenses related to public streets and common areas around the Authority.

According to the cooperation agreement, entered into in 1950, the City of Orange is required to "furnish or cause to be furnished to the Local Authority and the tenants of such Project the public services and facilities, which are at the date hereof being furnished without cost or charge to other dwellings and inhabitants in the city, including but not limited to: street lighting on public streets and roads within such Project and the boundaries thereof." In 1969, the cooperation agreement was amended to further state that "if by reason of the Local Government's failure or refusal to furnish or cause to be furnished any public services or facilities, which it has agreed hereunder to furnish or cause to be furnished to the Local Authority or the tenants of any Project, and the Local Authority incurs any expense to obtain such services or facilities, then the Local Authority may deduct the amount of such expense from any payments in lieu of taxes due, or to become due to the Local Government in respect to any Project or any other low-rent housing Projects owned or operated by the Local Authority."

While paying the local utility company for the City's street lighting costs, the Authority continued to calculate its annual payment in lieu of taxes;

however, it accrued the balance instead of making payments to the City. Accordingly, as of March 2006, the Authority's accrued payments in lieu of taxes amounted to \$21,034. As a result, the Authority disbursed \$53,227 more for street lighting costs than its accrued payments in lieu of taxes.

For fiscal year 2006 the Authority paid \$20,164 for street lighting costs that were in excess of the amount of its accrued payment in lieu of taxes. The Authority did not record this amount as an account receivable and had not taken any action to recover these costs from the City.

### **A \$156,000 Receivable Was Written Off**

As a result of the above overpayments related to the City's street lighting expenses, the Authority set up an account receivable due from the City for the fiscal years that were prior to fiscal year 2006. However, in its fiscal year 2005 financial statements, the Authority's accountant wrote off an account receivable due from the City totaling \$156,409. This balance represented the amount expended by the Authority for the City's street lighting expenses, which were in excess of the Authority's annual payments in lieu of taxes as of fiscal year end 2005. The Authority's auditors wanted to be certain that the lighting expenses were indeed the City's responsibility so they recommended that Authority officials determine whether the City was responsible for the street light payments. However, there was no evidence that the Authority followed up with the City to resolve this matter or that attempts were made to collect this balance from the City.



The above picture represents one of sixteen lights at the Thomas Street Project, which illuminates the Authority's parking lot. The Authority paid for these lights, despite a cooperation agreement stating that the City is responsible for paying for these lights.

### **Board Approval Was Not Obtained for the Write-Off**

Board approval was not given for the write-off of the \$156,409 receivable from the City. Therefore, the Authority did not comply with its annual contributions contract and U.S. Department of Housing and Urban Development (HUD) regulations when it wrote off the \$156,409 receivable from the City. The annual contributions contract provides that the Authority may only use the general fund for the operation and development of the projects and other purposes that are specifically approved by HUD.

Regulations at 24 CFR [*Code of Federal Regulations*] 85.20 provide that effective control and accountability must be maintained for cash and other assets. Further, grantees are required to safeguard such assets. Since the Authority could not provide documentation to substantiate the write-off of the receivable, such as attempts to collect the receivable, or resolve the responsibility of the City to pay for the street lights, it did not properly safeguard the Authority's assets.

Authority officials believe that the board was made aware of the write-off due to the issuance of the audited financial statements. However, approval of the audited financial statements does not equate to approval of the write-off. The write-off deprived the Authority of funds that could be used to pay for operating expenses. Therefore, the receivable should be

re-recorded on the Authority's books.

## **Conclusion**

The Authority did not ensure that the City complied with the terms of the cooperation agreement or that its assets were properly safeguarded. As utility costs increase, payments for street lighting will also increase. If the Authority continues to pay for street lighting in violation of its cooperation agreement, it faces a continued burden on its financial operations. The Authority should notify the city to pay for the street lighting costs and enforce its rights under the cooperation agreement. In addition, the \$156,409 receivable needs to be placed back on the Authority's books. During fiscal year 2006, the Authority has expended \$20,164 in street lighting/utility expenses that are in excess of its annual payment in lieu of taxes. This balance should also be recorded as an account receivable and recovered from the City.

## **Recommendations**

We recommend that the director, New Jersey Office of Public Housing, direct the authority to

- 1A. Record the account receivable of \$156,409 due from the City on its books to cover costs that should have been paid by the City under the cooperation agreement as of its fiscal year 2005 and take action to collect the receivable from the City.
- 1B. Record and recover funds amounting to \$20,164 from the City for street lighting expenses paid in excess of payment in lieu of taxes in fiscal year 2006.



## **SCOPE AND METHODOLOGY**

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To accomplish our objectives, we reviewed applicable laws, regulations, and other HUD program requirements. We analyzed the Authority's administrative plan, cooperative agreements, and procurement policies. We also reviewed independent public accountant reports, board minutes and resolutions, and interviewed HUD and Authority management and staff.

We conducted our audit work from February through June 2006 at the Authority's offices in Orange, New Jersey. Our audit covered the period April 1, 2003, through March 31, 2006.

We performed our review in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary.

# INTERNAL CONTROLS

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Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of assets – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## **Significant Weaknesses**

Although the audit did not disclose any major significant weakness in the Authority's management controls, we found deficiencies in its write off of an account receivable from the City and the payment of street lighting costs which are the City's obligation under the cooperation agreement. The deficiencies are discussed in the finding section of the report.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Funds to be put to better use <u>2/</u>
1A	\$156,409	
1B		\$20,164
Total	\$156,409	\$20,164

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law: or federal, state, or local policies or regulations.
- 2/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reduction in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings. In this instance, if the Authority implements our recommendations and requires the City to comply with the requirements of the cooperation agreement it will result in an annual saving of \$20,164 for unnecessary expenditures. Our estimate only reflects the initial year of these recurring benefits.

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

#### Auditee Comments

**HOUSING AUTHORITY OF THE CITY OF ORANGE**

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340 Thomas Boulevard Orange, New Jersey 07050 (973) 675-1250 - (973) 675-6843 Fax

*Executive Director*  
Walter D. McNeil, Jr.

*General Counsel*  
Ernest R. Booker

September 6, 2006

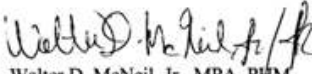
Mr. Edgar Moore, CPA, CFE  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
26 Federal Plaza, Room 3430  
New York, New York 10278 0068

Dear Mr. Moore:

As per our conversation, I am faxing and sending our responses for the two audit reports to you and Michael overnight. If you have any further questions, feel free to contact me.

Thank you for taking the time to meet with us for our exist interview.

Sincerely,

  
Walter D. McNeil, Jr., MPA, PHM  
Executive Director

cc: Michael Zaccaria, Senior Auditor

CHAIRWOMAN – June Codrington-Kole; VICE-CHAIRMAN – Clifford Ross; TREASURER – Kerry Coley, Sr.  
MEMBERS: Ellen Key; Joseph Seneca; Ernest C. Williams; Donna K. Williams-DeVose

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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Ref to OIG Evaluation

Auditee Comments

Housing Authority of the City of Orange  
Response to the Inspector General's  
Findings and Comments  
Regarding the Lighting Expense Write-Off  
Exit Conference  
September 6, 2006

Walter D. McNeil, Jr.  
Executive Director  
Housing Authority of the City of Orange  
340 Thomas Boulevard  
Orange, New Jersey 07050  
973-677-4577

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

**Comment 1**

**City of Orange Housing Authority Response to Inspector General's Finding  
Regarding Lighting Payments.**

We agree with the Inspector General's comments in this area. The Authority will send a copy of the completed report with instructions from the Regional Director of Public Housing to implement the changes in this area. We will also move to report the \$156,000 as a receivable on our books again.

**Comment 2**

The agency still has questions regarding the specific lights in question because the one highlighted in the report appears to be extra lighting that is specifically on our property and should be a cost associated with our agency.

### **OIG Evaluation of Auditee Comments**

**Comment 1** Authority officials concur with our recommendations and have agreed to place a \$156,409 accounts receivable back on the books.

**Comment 2** Authority officials question whether the light shown in the report was the City's since the light is on the Authority's property. As such, we changed the picture in the report, which now accurately displays a light owned and maintained by the City of Orange, but paid for by the Authority. We also confirmed with the local utility company that the lights are owned and maintained by the City of Orange. Accordingly, the Authority needs to contact the City of Orange to resolve any disputes.