Thomas P. DiNapoli
State Comptroller

110 State Street
Albany, New York 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 9, 2025

RuthAnne Visnauskas
Commissioner/Chief Executive Officer
Homes and Community Renewal
38-40 State Street
Albany, NY 12207

Re: Physical and Financial Conditions at Selected Mitchell-Lama Developments in New York City
Report 2024-F-30

Dear Commissioner Visnauskas:

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, we have followed up on the actions taken by officials of Homes and Community Renewal to implement the recommendations contained in our initial audit report, *Physical and Financial Conditions at Selected Mitchell-Lama Developments in New York City* (Report 2022-S-9).

Background, Scope, and Objective

The Mitchell-Lama Housing program (Program) was created in 1955 by the Limited Profit Housing Act to provide affordable rental and cooperative (co-op) housing to middle-income families. A total of 269 State-supervised Mitchell-Lama developments (developments), with over 105,000 apartments, were built under the Program. In exchange for low-interest mortgage loans and real property tax exemptions, the Program required owners to comply with limitations on profit, income limits for tenants, and supervision by Homes and Community Renewal's (HCR) Division of Housing and Community Renewal (DHCR) and by the New York City (NYC) Department of Housing Preservation and Development. Developments are owned by private companies and can exit the Program under certain conditions. DHCR works with owners as they near the end of their 20-year affordability requirements to provide low-cost financing tools that help maintain developments while also extending their affordability. In addition, as part of the State's commitment to increase and preserve the number of affordable housing opportunities for its residents, HCR makes capital available to owners for the preservation and improvement of their developments.

Owners often employ managing agents—persons or entities—to manage the developments. It is the responsibility of the owner to provide safe and habitable housing and to maintain the physical and financial integrity of the development, and it is the function of the managing agent to effectively and efficiently manage the development to ensure that the owner's responsibilities are carried out. Both the owner and managing agent must agree to manage the development in accordance with local codes and State rules and regulations. Each development has an assigned DHCR Housing Management Representative (Management Representative), who is responsible for monitoring and evaluating the development's management, as outlined in Title 9 of the New York Codes, Rules and Regulations (Regulations). Management Representatives are required to conduct yearly on-site assessments (site visits) of a development's physical condition as well as fiscal reviews and to provide the results, including recommendations, in a written DHCR Management Field and Office Visit Report (Report) to the development.

The objectives of the initial audit, issued on June 15, 2023, were to determine whether tenants living in Mitchell-Lama developments supervised by DHCR were provided safe and clean living conditions and whether funds were properly accounted for and used for intended purposes. Our audit covered the period from January 2019 through January 2023. This audit was based on a sample of four NYC developments: 753 Classon Avenue Housing Company (Classon), Cathedral Parkway Towers (Cathedral), Findlay House, and Jamie Towers (see Table 1).

Table 1 – Sample of Developments

Development	Development County Location	Managing Agent	No. of Units	Development Type
Classon	Brooklyn	New Bedford Management	142	Rental
Cathedral	Manhattan	Cathedral Parkway Towers Management	309	Rental
Findlay House	Bronx	Prestige Management	227	Rental
Jamie Towers	Bronx	Maxwell-Kates	620	Cooperative

The audit found DHCR did not adequately oversee the physical and financial conditions at the sampled developments, likely causing management at those developments to misspend funds and fail to provide a safe and clean living environment for their residents. We observed hazardous conditions at the four developments, and DHCR officials also identified hazardous conditions during their own visits but often did not share their findings with the developments in a timely manner. All four developments misspent funds under DHCR's watch. For a sample of 280 transactions totaling approximately $1.9 million from the general ledgers of the four developments, we identified 139 transactions totaling approximately $1.5 million that were unrelated to normal operations, inadequately supported, or for which there were no approvals, competitive analysis, and/or bidding, as required. Additionally, DHCR reported inaccurate information to the Legislature, State Comptroller, and Attorney General in the required Annual Report on Mitchell-Lama Housing Companies in New York State.

The objective of our follow-up was to assess the extent of implementation, as of May 6, 2025, of the nine recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

DHCR officials made some progress in addressing the problems we identified in the initial audit report; however, additional improvements are needed. Of the initial report's nine audit recommendations, one was implemented, six were partially implemented, and two were not implemented.

Follow-Up Observations

Recommendation 1

Improve monitoring of developments, including but not limited to:

- *Verifying that Management Representatives responsible for oversight at the sampled developments review all items on the Field and Office Visit Report and prepare and send those reports to the developments' management promptly, as required;*
- *Conducting at least one annual site visit to each development;*
- *Ensuring immediate corrective action is taken when unsafe conditions are identified, and documenting dates of correction; and*
- *Taking action against managing agents who are non-compliant with Regulations.*

Status – Partially Implemented

Agency Action – Although DHCR Management Representatives visited each of the sampled developments in 2023 and 2024 and prepared Reports on the conditions they observed, based on our assessment, we found that additional monitoring is needed, as detailed below:

- Management Representatives did not review all items on their Reports. Reports for all four developments included sections marked either "Not Applicable" or "Not Reviewed." In addition, DHCR did not send the Reports to development management promptly (i.e., within 30 days); instead, Reports were sent to development management between 41 and 139 days after issuance.
- Management Representatives conducted at least one annual site visit to each development in 2023 and 2024; however, one of the Reports they prepared did not address all the mandatory review items.
- DHCR did not ensure immediate corrective action was taken when unsafe conditions were identified. We noted that unsafe conditions identified in DHCR's 2023 and 2024 Reports remained uncorrected at the time of our site visits in January and February 2025. For example, the 2023 Report for Jamie Towers noted several self-closing doors were defective. We also noted (from HPD's website) a December 2023 violation for defective self-closing doors leading to one of Jamie Towers' laundry rooms. When we visited in February 2025, the condition still existed. Further, during other February and April 2025 site visits, we observed several additional hazardous and unsanitary conditions such as rodent infestations, mold, and peeling paint (see Figures 1–5 in the Exhibit at the end of this report). Nonetheless, we note that when we visited Classon in February 2025, we observed ongoing renovation at the development. Additionally, DHCR officials informed us that Findlay House plans to start renovation work in July 2025.
- DHCR did not consistently take action against managing agents who did not comply with Regulations. Although DHCR issued a letter of non-compliance to Jamie Towers' former managing agent on May 23, 2023, citing the conditions highlighted in the initial audit report such as unsupported expenses and poor

internal controls, DHCR did not follow up with managing agents at the other three sampled developments to ensure the conditions observed at these developments had been addressed. In fact, when we visited Cathedral in January 2025, we observed that conditions identified in the initial audit had still not been corrected.

Recommendation 2

Develop a formal process to obtain and analyze publicly available violations and complaints data, and use the information to enhance monitoring of developments.

Status – Implemented

Agency Action – DHCR officials developed a formal process to obtain and analyze publicly available violations and complaints data and used the information to enhance DHCR's monitoring of the developments. After our initial audit report was issued, DHCR officials updated their Reports to include publicly available violations data, and DHCR Management Representatives use this information to enhance their on-site monitoring. DHCR also issued a memo in November 2023 reminding all development management to remediate all urgent health and safety findings noted during the DHCR visit—immediately or within 72 hours of DHCR's site visit.

Recommendation 3

Review expenditures, including all bonus payments, petty cash transactions, and reimbursements, at the sampled developments, and take appropriate action, including recouping funds, for transactions that are inappropriate or unusual.

Status – Partially Implemented

Agency Action – After our initial audit report was issued, DHCR officials issued three memos to housing company owners, managing agents, and site managers related to bonus payments, petty cash, and unauthorized payments, and reviewed certain expenditures at some of the sampled developments. However, they did not adequately review these developments' expenses. Specifically, DHCR officials did not review a sample of Classon's and Jamie Towers' expenditures (including all bonus payments, petty cash transactions, and reimbursements) to determine whether they were inappropriate or unusual. The Management Representatives of both Findlay House and Cathedral indicated that they reviewed a sample of both developments' expenses and either questioned certain expenses (Findlay House) or concluded that they did not identify any inappropriate or unusual expenses (Cathedral).

Nevertheless, upon reviewing a sample of each development's expenses, we identified expenses at all four that were unsupported and appeared unusual or unrelated to normal development operations. This includes an $850 payment made to a DJ for musical entertainment by Cathedral and a $105,000 sign-on bonus payment made to a contractor by Jamie Towers.

Recommendation 4

Develop and implement policies and procedures related to bonus payments, requirements such as dollar thresholds for contracts, segregation of duties, and internal controls over purchasing at the developments, and monitor compliance with these policies.

Status – Partially Implemented

Agency Action – In 2023 and 2024, DHCR officials issued policies and procedures related to bonus payments, dollar thresholds for contracts, segregation of duties, and internal controls over purchasing at developments. According to the policies, DHCR reserves the right to review all expenditures, including bonus payments, petty cash transactions, and reimbursements—regardless of the sum. Additionally, financial transactions and requests for reimbursements cannot be approved by the individual making the requests. The policies also state that the agency shall take all necessary steps to safeguard the assets of the housing company, including but not limited to recouping funds that are inappropriate or unusual. Additionally, the policies require that managing agents submit a Monthly Operating Report on the 20th of each month for the previous month that should include at least a budget comparison report, statement of operating income and expenses, statement of disbursement/general ledger/statement of journal entries, collections, and a list of unpaid bills. DHCR also expects its staff to review the financial condition, including bonus payments, at each development and to report on their findings in the DHCR Management Field and Office Visit Reports. However, Management Representatives for Classon and Jamie Towers did not review a sample of expenditures at these developments, as required. For instance, in cases where they were to review unusual or inappropriate transactions and any transactions that require repayment to the housing development, the Management Representative instead reported them as “Not Applicable” or “Not Reviewed.”

Recommendation 5

Improve monitoring of financial conditions at the developments by enforcing compliance with Regulations related to the proper use of the developments’ funds, competitive analysis and bidding, and DHCR’s approval requirements for annual expenditures of $100,000 or more.

Status – Partially Implemented

Agency Action – DHCR officials conducted site visits to the developments and mandated that Management Representatives review the financial conditions at each development, including monitoring transactions to ensure compliance with Regulations related to the proper use of development funds, competitive analysis and bidding, and DHCR’s approval requirements. Additionally, we saw evidence that the Management Representative for one development noted there was non-compliance with bidding requirements for a certain contract and reported that, consequently, DHCR disapproved the contract. Regardless, although DHCR officials claimed none of the developments received approval for any new contracts exceeding $100,000 between July 2023 and January 2025, we found instances where annual expenditures to certain vendors exceeded $100,000 without DHCR’s approval.

For example, Cathedral made payments to H42 Management Solutions in calendar year 2024 for approximately $159,465, for which we found no evidence of competitive bidding or DHCR approval. Moreover, although Cathedral’s contract with H42 Management

Solutions identified the services to be provided as “coordination and operation assistance, such as computerized conservation and updates,” Cathedral officials provided us with only an invoice for painting services received from H42 Management Solutions. Cathedral officials provided no explanation for this discrepancy. Likewise, in 2024, Jamie Towers paid $314,580 and $185,761 in aggregate to Dede K Contracting Group and Garda World security services, respectively, but we found no evidence of competitive bidding or DHCR approval. We also found two instances where Jamie Towers paid for services that exceeded $100,000, but the managing agent staff did not provide supporting documentation to identify the vendors. Further, we found a total of $2,966,674 in inadequately supported expenses, $730,477 in unsupported expenses, and $81,507 in unusual expenses or expenses unrelated to operations (see Table 2). For example, at Cathedral, we found a payment of $1,800 for catering services provided by a party related to the development’s property manager.

Table 2 – Unusual, Inadequately Supported, and Unsupported Payments

Development	Unusual or Unrelated to Operations	No Support Provided	Inadequately Supported
Classon	–	$27,548	$2,754,387
Cathedral	$81,274	61,790	–
Findlay House	30	36,155	19,545
Jamie Towers	203	604,984	192,742
Totals	**$81,507**	**$730,477**	**$2,966,674**

Recommendation 6

Mandate regular training for management at the developments and Board members to ensure they are aware of good governance and their fiduciary responsibilities.

Status – Partially Implemented

Agency Action – Although DHCR advised developments of an amendment to the Private Housing Finance Law that mandates training for Board members of applicable developments, DHCR did not require similar training for the developments’ managing agents. As a result, DHCR officials provided training completion records for only three of the 12 current Board members of Jamie Towers, because it is the only development in our sample that has a Board of Directors. DHCR did not provide any documentation that confirms that the remaining nine Jamie Towers Board members or managing agents at the sampled developments received regular training to ensure they were aware of good governance and their fiduciary responsibilities.

Rather, officials advised that they require managing agents to be real estate brokers or to have acceptable professional certifications, and provided a memo issued in December 2024 stating that managing agents are required to obtain certifications from certain accredited organizations.

Recommendation 7

Monitor residential and commercial rent arrears, and work with development management to take appropriate steps in line with Regulations to collect outstanding rent.

Status – Partially Implemented

Agency Action – After the issuance of our initial audit report, DHCR began requiring managing agents to send monthly data on arrears, evictions, and vacancies to DHCR. According to DHCR's instructions, on the 20th of the month, each development should submit its HM-32a Arrears & Evictions and HM-32 Vacancy reports. These reports summarize each development's residential and commercial arrears and apartment vacancies. However, we found that these reports contained inaccurate information and were consequently not suitable for monitoring purposes. For example, although Findlay House's Arrears & Evictions report indicates it had no commercial rent arrears for the period, its property manager advised us that at least one commercial tenant had not paid rent. According to this property manager, he was unsure of the current arrangement with the development, or why they stopped paying rent.

Recommendation 8

Assist management at Cathedral and Findlay House with filling vacancies.

Status – Not Implemented

Agency Action – DHCR did not implement this recommendation. During a January 2025 visit to Cathedral, we found three vacant units that we reported on in the initial audit remained vacant. Moreover, during this visit, we found 16 vacant units—compared to the 17 vacant units found during the initial audit's September 2022 visit. In addition, even though Cathedral still has outstanding applicants on its waiting list—some dating back more than 10 years—we found listings of Cathedral units on online rental websites (e.g., Zillow and Apartments.com). We brought these listings to DHCR's attention; DHCR officials told us they contacted Cathedral's managing agent who denied any involvement with such listings.

Likewise, according to a January 2025 vacancy report generated by the managing agent during a January 2025 visit, 12 units at Findlay House were vacant—seven had been vacant for 6 to 12 months. Notably, according to its waiting list, Findlay House still had outstanding applicants who applied to Findlay House over 20 years ago. In response to our observations, DHCR officials advised us in May 2025 that units in Findlay House were being held vacant while the development awaited sponsor financing.

Similarly, during an April 2025 visit, we found 61 vacant units at Jamie Towers. Notably, according to Jamie Towers' vacancy report, 24 of these 61 units were listed as vacant for periods ranging between 1 and 7 years. Meanwhile, Jamie Towers' wait list contained applicants who expressed interest in units dating as far back as 11 years.

In addition, during site visits to Cathedral, Findlay House, and Jamie Towers, we identified vacant apartments that were not documented on the vacancy list provided by each development's managing agent at the time of our visit. This includes 17 vacant apartments at Jamie Towers that were not on the vacancy list provided.

Recommendation 9

Ensure Program staff maintain a current and accurate list of the DHCR-supervised developments and communicate reliable data to the Legislature, State Comptroller, and Attorney General.

Status – Not Implemented

Agency Action – According to DHCR’s 2024 Annual Report to the Legislature, issued on June 30, 2024, DHCR supervised 117 developments in 2024. In contrast, DHCR’s website listed only 91 supervised developments in 2024. Similar to conditions observed in the initial audit, DHCR’s Annual Report provided no explanation for the 26 additional developments included in its report but not listed on its website.

Major contributors to this report were Adefemi Akingbade, Menard Petit-Phar, and Netosha Benn.

HCR officials are requested, but not required, to provide information about any actions planned to address the unresolved issues discussed in this follow-up within 30 days of the report’s issuance. We thank the management and staff of HCR for the courtesies and cooperation extended to our auditors during this follow-up.

Sincerely,

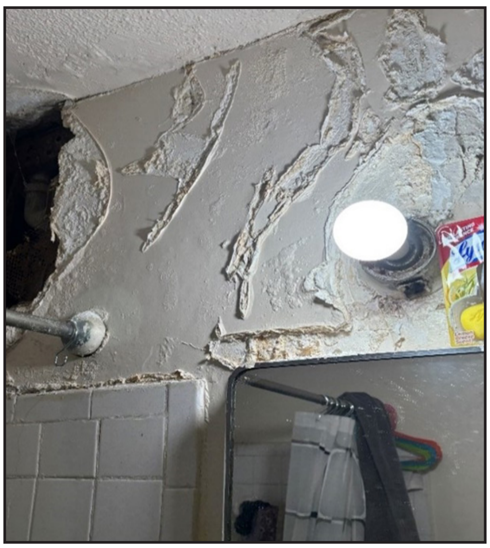
Diane Gustard
Audit Manager

cc: Sean Fitzgerald, Homes and Community Renewal
Cathy Sparks, Homes and Community Renewal
Mohammed Siddiqui, Homes and Community Renewal

Exhibit

Figure 1 – Decaying rat in vacant Findlay House unit (February 6, 2025).

Figure 2 – A ceiling leak in the hallway at Jamie Towers (February 21, 2025).



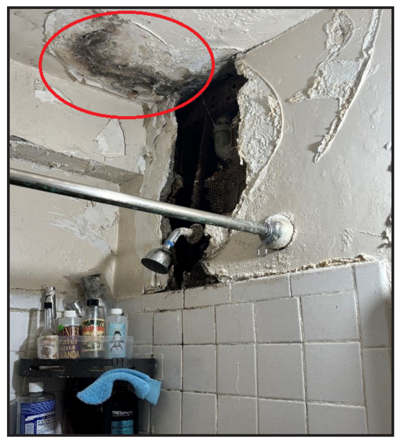


Figure 3 – (above) Mold on a ceiling; (left) hole in bathroom wall and peeling paint in occupied Classon unit (February 5, 2025).

Figure 4 – Pigeon droppings and feathers in vacant Jamie Towers unit (April 1, 2025).

Figure 5 – Peeling paint and water leak in a commercial space at Findlay House (February 6, 2025).