



Watertown Housing Authority

Internal Controls Over Claims Processing

Report of Examination

Period Covered:

January 1, 2011 — February 29, 2012

2012M-221



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

Dear Housing Authority Officials:

A top priority of the Office of the State Comptroller is to help public authority officials manage authority resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support authority operations. The Comptroller oversees the fiscal affairs of authorities statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local authority assets.

Following is a report of our audit of Watertown Housing Authority, entitled Internal Controls Over Claims Processing. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution.

This audit's results and recommendations are resources for public authority officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

That Watertown Housing Authority (Authority) is a municipal housing authority created to provide low-rent housing in the City of Watertown. The Authority is governed by a seven-member Board of Commissioners (Board). Five commissioners are appointed by the Watertown City Manager and two are elected by the tenant population. The Board, which has ultimate responsibility for the Authority's operations, appointed an Executive Director (Director) to oversee day-to-day operations. The Director's responsibilities include preparing the annual operating budget, overseeing cash management and capital projects, and check signing. The Director also oversees the Accounting Supervisor (Supervisor) who is responsible for the accounting department's day-to-day operations including approving purchases and claims payment.

The Authority maintains and manages three asset management projects consisting of seven housing communities that have a total of 642 apartment units for rent. The Authority is funded primarily from tenant rents and the US Department of Housing and Urban Development (HUD) and expenditures of those funds must comply with applicable HUD requirements. The Authority's 2012 fiscal year operating budget totaled approximately \$5.6 million.

Objective

The objective of our audit was to evaluate the Authority's internal controls over claims processing and answer the following question:

- Are internal controls over claims processing appropriately designed and operating effectively to safeguard housing authority assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Authority assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on the area most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, claims processing and payroll and personal services. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the claims processing area and, therefore, we examined internal controls over claims processing for the period January 1, 2011, to February 29, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
Authority Officials and
Corrective Action**

The results of our audit and recommendation have been discussed with Authority officials and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials generally agreed with our recommendation and indicated they planned to initiate corrective action.

Good management practices dictate that the Board has the responsibility to initiate corrective action. As such, the Board should prepare a plan of action that addresses the recommendation in this report and forward the plan to our office within 90 days.

Claims Processing

An effective internal control system, which is established by the Board and implemented by Authority officials, is the integration of activities, plans, attitudes, policies and efforts of the people in the organization to provide reasonable assurance that the organization will achieve its goals and objectives. Although not specifically set forth in the Public Housing Law, prudent management practices require the Board to provide appropriate direction and oversight to ensure that Authority funds are expended for only legitimate Authority purposes and in accordance with the Board's directives.

Internal controls over claims processing should be designed to ensure that all claims contain enough supporting documentation to determine that purchases are made in accordance with Authority's policies, and that the amounts claimed represent actual and necessary expenses. These policies and procedures should ensure that the claims processing function verifies each claim is for a valid and legal purpose, the purchase was properly authorized and supported by a purchase order, the claim is sufficiently itemized, mathematically correct, and is in compliance with the Authority's policies and procedures. When internal controls are not designed appropriately or operating effectively, there is an increased risk that payments could be made for non-Authority purposes.

The Authority has established and designed an adequate system of internal controls over claims processing. An account clerk assembles the claim packets (purchase orders, quotes, asset management sheets,¹ receiving documentation and invoices) and processes the claims for payment; the senior account clerk reviews the system entries and prints the checks. The Supervisor audits the claims (verifies receiving and coding, approves any changes to the purchase orders and verifies the claims are mathematically correct) and approves payment. The Director reviews the claims and hand-signs the checks. Monthly, the Supervisor presents monthly financial summaries² to the Board that include summaries of monthly payments by vendor.

We tested 126 claims³ totaling \$1,035,528 to determine if each claim was for a valid and legal purpose, the purchases were properly authorized and supported by purchase orders, the claims were

¹ Documents that allocate the costs to proper appropriation codes.

² These summaries included profit and loss budget versus actual, expenses by vendor, credit card breakdowns, and profit and loss prior year comparisons.

³ There were a total of 108 check payments. Some check payments included more than one claim. See Appendix B for information on our sample selection method.

mathematically correct, the claims were sufficiently itemized, and the goods or services were received and complied with the Authority's procurement and travel policies. We generally found that the claims audit process was operating effectively. An account clerk assembled and processed the claims, the Supervisor reviewed and approved the claims and the Director signed the checks. While the Authority's overall controls over claims audit were effective, we found the Authority's management provided weekend trips for five retirees⁴ costing \$4,962, which management characterized as a gift for their years of service and dedication to the Authority. The Director told us the retirees provided a total of 145 years of service and this was an acknowledgement and thank you for the services rendered.

It is our understanding that the money used by the Authority to pay for the weekend trips came from certain fees (i.e., "fee income") earned by the Authority for administrative costs associated with overseeing certain programs operated by the Authority. We were informed by HUD that income earned from these types of fees is generally not to be treated as Federal money subject to Federal restrictions. Instead, it is our understanding that these moneys are considered "local revenue," which are not subject to additional Federal restrictions, but are subject to applicable restrictions under State law.

We are aware of no authority in NYS Public Housing Law for a housing authority to make a gift, such as the paid trips here, to an employee or retiree. It is permissible in our view for a housing authority to provide a token of appreciation, such as a pin, plaque, framed certificate or memento of nominal value, to a retiring employee in recognition of long and faithful service, in accordance with a management program for recognizing such service. However, the values of these weekend trips were more than nominal amounts and we believe beyond mere tokens of appreciation. Accordingly, the weekend trips could be considered as gifts of public funds, which are impermissible.

Recommendation

1. Housing Authority officials should refrain from making gifts of public funds to employees or retirees.

⁴There were six retirees in 2010. Five of the six retirees received the gift. The sixth retiree did not contact the Authority to make trip arrangements.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

The Authority officials' response to this audit can be found on the following pages.

Watertown Housing AUTHORITY



East Hills

January 18, 2013

Maywood
Terrace

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
Syracuse Regional Office
State Office Building, Room 409
333 E. Washington Street
Syracuse, N.Y. 13202-1428

Skyline
Apartments

Hilltop
Towers

Re: Watertown Housing Authority
Internal Controls Over Claims Processing
2012M-221

Midtown
Towers

Dear Ms. Wilcox:

LeRay St.
Apartments

I am writing this letter in response to the audit referenced above that was conducted by the Office of the State Comptroller at the Watertown Housing Authority (WHA) in 2012. This letter will also serve as the official Corrective Action Plan for the one recommendation identified in the report. The Watertown Housing Authority views audits by external entities as consulting and control review opportunities and we wish to thank the Office of the State Comptroller for their review and recommendation.

Meadowbrook
Apartments

First, we would like to state that we are very pleased with the overall outcome of the audit with no findings of fiscal mismanagement and only one recommendation. This is a true attestation that the WHA has put in use adequate controls over claims processing as was mentioned in the report.

The WHA does agree with the rationale that was provided in the report stating that certain fees earned by housing authorities can be de-federalized, but are still considered "local revenue" subject to applicable restrictions under State law. Therefore, it is also understandable where the paid retiree trips could be considered gifts of public funds, which as stated in the report, is not permissible under State law unless the gifts are tokens of appreciation (i.e. pin, plaque, certificates) that are of nominal value. When the WHA was considering what to provide as "tokens of appreciation" for the retirees, it wanted to provide something of meaningful value for the 145 years of public service to the Watertown Housing Authority, not just a pin or certificate.



Watertown Housing



A U T H O R I T Y

The benefit gained by the WHA from the retirees' years of service definitely outweighed the total cost of \$34.22 per year (\$4962 divided by 145 years of service). Operationally, the \$4962 was only .0007% of the \$6.6 million claims paid, again a small cost by what was gained. Although we didn't have any written employee morale policy guiding us with our decision, our decision was discussed at the Board level, with the management team, and with the Employee Recognition Committee on what we could do for the retirees' long and faithful years of service. Our decision definitely aligned with our Mission and our Strategic Action Plan.

The WHA will be taking the following Corrective Action Plan (CAP):

Audit Recommendation: Housing Authority officials should refrain from making gifts of public funds to employees or retirees.

Implementation Plan of Action: The WHA will make sure that the future use of any revenues generated by the housing authority for employee morale building activities or programs will be done in accordance with all applicable laws and regulations, specifically those cited in the State Comptroller's report.

Implementation Date: Effective immediately upon Board Approval. A Board resolution adopting this CAP was done on January 17, 2013.

Person Responsible for Implementation: Executive Director

We hope this Audit Response Letter and Corrective Action Plan conclude this report, but if you have any questions or need additional information, you can contact me at the address or number below.

Sincerely,

Michael Robare
Executive Director

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Authority assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, claims processing, payroll and personal services.

During the initial assessment, we interviewed appropriate Authority officials, performed limited tests of transactions and reviewed pertinent documents, such as Authority policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Authority's financial transactions as recorded in its databases. Further, we reviewed the Authority's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected claims processing for further audit testing.

We interviewed Authority officials to gain an understanding of the Authority's procedures for claims processing. We reviewed Board minutes to obtain the monthly Board reports.

From January 1, 2011, to February 29, 2012, 1,450 check payments were processed totaling \$6.6 million. We used a random number generator to select a random sample of 50 check payments (57 claims) totaling \$54,650. In addition, we selected an additional 58 high risk check payments (69 claims) totaling \$980,878, including but not limited to payments made to Commissioners, Authority management, credit card companies, hotels, and payments for large dollar amounts.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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