



East Hampton Housing Authority

Board Oversight

Report of Examination

Period Covered:

January 1, 2015 – September 30, 2016

2017M-33



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2017

Dear Authority Officials:

A top priority of the Office of the State Comptroller is to help authority officials manage their authorities efficiently and effectively and, by so doing, provide accountability for dollars spent to support authority operations. The Comptroller oversees the fiscal affairs of authorities statewide, as well as authorities' 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 authority operations and Board governance. Audits also can identify strategies to reduce authority costs and to strengthen controls intended to safeguard authority assets.

Following is a report of our audit of the East Hampton Housing Authority, entitled Board Oversight. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the New York State Constitution.

This audit's results and recommendations are resources for authority officials to use in effectively managing operations and in meeting the expectations of taxpayers. 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

The East Hampton Housing Authority (Authority) is located in the Town of East Hampton (Town) in Suffolk County. The Authority was created in 1983 pursuant to Section 563 of New York State Public Housing Law (Law) to create and perpetuate affordable housing opportunities for qualified individuals in accordance with the Law and regulations prescribed by the United States Department of Housing and Urban Development (HUD). The Authority receives the majority of its funding from HUD and the expenditure of those funds must comply with HUD requirements. The Authority's remaining funding consists primarily of rental income from tenants. Operating expenditures for the Authority's affordable housing program totaled \$745,802 in 2015.

The Authority's Board of Commissioners (Board) is composed of five members appointed by the Town to serve a five-year term. The Authority is independent of the Town, managing its own operations and financial affairs. The Board oversees an Executive Director (Director) and staff that carry out the Authority's daily operations. The Director is appointed by the Board and is responsible for the Authority's day-to-day operations, a clerk typist receives rent moneys and the Administrative Assistant deposits and disburses funds, while the Treasurer reviews and signs checks. The Authority manages 93 housing units located on three properties in the Town and purchased a fourth property in 2016 where another 40 housing units will be built.

Objective

The objective of our audit was to assess the Board's oversight of the Authority's financial operations. Our audit addressed the following related question:

- Does the Board provide sufficient oversight of the Authority's operations?

Scope and Methodology

We examined Board oversight of the Authority's financial operations for the period January 1, 2015 through September 30, 2016. Our audit also examined the adequacy of certain information technology controls. Because of the sensitivity of some of this information, we did not discuss the results in this report, but instead communicated them confidentially to Authority officials.

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. Unless otherwise indicated in

this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
Authority Officials
and Corrective Action**

The results of our audit and recommendations 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 recommendations and indicated they will take 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 recommendations in this report and forward the plan to our office within 90 days.

Board Oversight

The most important component of internal controls is the control environment, or the “tone at the top.” The Board is responsible for setting this tone through management and oversight of financial operations and ensuring that financial resources are safeguarded. The Board fulfills this responsibility, in part, by instituting internal controls, such as policies and procedures, to ensure that financial transactions are properly authorized, recorded and reported.

Authority officials are responsible for adopting policies and procedures to ensure that cash receipt, cash disbursement and bank reconciliation duties are segregated. If this is not practical, the Board should ensure there is enhanced oversight and review. In addition, a reconciliation system is essential for maintaining control over cash. Authority officials should ensure that monthly bank statement balances are reconciled with the accounting records to help verify that all cash receipt and disbursement transactions are captured and properly recorded. Bank reconciliations show and explain the differences between the bank’s records of cash accounts and the Authority’s accounting records. Any differences found during the reconciliation process must be promptly documented and resolved to ensure that financial activities are accounted for in a timely manner. The Board should review bank reconciliations to monitor the Authority’s cash position.

The Board needs to improve its oversight of the Authority’s operations. During our audit period, the Authority maintained five operating accounts (one for each of its three housing developments, one for the property in development,¹ and a general operating account) and issued 1,536 nonpayroll checks totaling \$6,324,737. However, the Board and Authority officials have not adopted policies and procedures to ensure that cash receipt, cash disbursement and bank reconciliation duties are segregated. As a result, the Administrative Assistant records and deposits cash receipts, disburses money and reconciles bank accounts. In addition, the Board has not established compensating controls, such as reviewing monthly reports (comparing budgeted to actual expenditures, bank reconciliations or cash flow projections) or reviewing the Administrative Assistant’s work.

We examined the Authority’s cash disbursements journal maintained during our audit period and reviewed bank reconciliations for three accounts. Bank reconciliations were not properly performed. Voided

¹ The three housing developments are Accabonac, Avallone and Springs Fireplace. The property in development is in Amagansett.

transactions were recorded incorrectly or not at all, and signed blank checks were kept on hand for use in emergencies. During our audit period, 22 signed blank checks totaling \$228,641 were used and issued out of sequence, and another 15 were still on file. The issued checks all appeared to be for appropriate Authority purposes; however, having signed blank checks available increases the risk of unauthorized payments.

Bank reconciliations are prepared monthly by the Administrative Assistant and reviewed by the Director. While adjusted bank balances were accurate, some of the accounts included reconciling items that were up to nine years old. We examined one judgmentally selected month's bank reconciliation for each of three Authority accounts. Although we found only a minor discrepancy between the adjusted bank balance and general ledger balance for one account, we found other recording discrepancies that Authority officials should have reviewed and corrected, including the following:

- Twenty-eight reconciling items² between one and nine years old were listed as outstanding or in transit. These included 12 outstanding checks totaling \$9,795, dated from 2007 to 2014; 12 deposits in transit totaling \$0, dated from 2008 to 2014; a deposit in transit from January 2, 2009 for \$1,650; and a transfer in and transfer out from January 14, 2008, each for \$34,925, listed as outstanding/in transit. After we brought these items to the Director's attention, she and the Administrative Assistant began reviewing and resolving them.
- Ten canceled checks totaling \$15,774 from the Springs Fireplace account bore check numbers that did not match the accounting records. The Director stated that this happened because the check printing restarted after a printer jam, resulting in the recorded checks 1262 through 1271 printing as checks 1263 through 1272. However, because no one adjusted the accounting records to reflect the actual check numbers, the first check in that series, for \$351, was reprinted as check 1263 and mailed, when the Director thought the payment had been voided after she appropriately defaced³ and filed the original check 1262 for \$351 in a cabinet with other voids.
- Seven canceled checks totaling \$20,421 and three outstanding checks totaling \$1,151 from the Accabonac housing development account bore check numbers that did not match

² Reconciling items are transactions that have not yet been recorded by the bank (such as outstanding checks and deposits in transit) and transactions processed by the bank, but not yet recorded in the District's books (such as earned interest or fees).

³ To ensure it could not be used

the accounting records. The actual check numbers issued were 7169 through 7178; however, these checks were instead recorded as 7171 through 7180. This resulted in 7179 and 7180 being used in the accounting records twice for two sets of payees and amounts, since the actual checks bearing those numbers were recorded correctly. Check numbers 7169 and 7170 did not appear in the accounting records.

- Four checks totaling \$733 were recorded incorrectly in the general operating account. Check 5113 for \$176 was recorded as check 5116, while the actual check 5116 for \$128 was erroneously recorded as check 5119. The actual check 5119 for \$752 was recorded correctly, resulting in check 5119 being attached to two different transactions in the accounting records. Similarly, voided check 5114 was recorded as check number 5117, which was also used and correctly recorded as check 5117 for \$110. Check 5115 for \$430 was erroneously recorded as 5118, which was also used and correctly recorded as check 5118 for \$86. Check numbers 5113, 5114 and 5115 did not appear in the accounting records.

We also reviewed the cash disbursements journals for all five Authority accounts in our audit period and found over 30 recording errors in three accounts. These included the errors previously noted and two checks that were each recorded twice, once with the correct payee and amount and once as \$0; one of these duplicate entries was made instead of correcting the original entry to remove a decimal from the check number. We also found that signed blank checks were used, and voided checks were not recorded.

Signed Blank Checks — The Authority requires two signatures on each check⁴ and normally prints checks weekly. However, blank checks are kept on file in case of emergency, as stated by Authority officials, and signed only by the Treasurer. No record is kept of the checks or when they are used. During our audit period, the Authority used 22 of these signed blank checks from four of its accounts, issued outside of the normal check sequence. These checks totaled \$228,641, the largest of which was a check for \$198,631 made payable to a bank. Another 15 signed blank checks were still on file as of September 30, 2016. Although all the issued checks appeared to be for appropriate Authority purposes, maintaining signed blank checks on file increases the risk of unauthorized payments, especially since the Authority's two-signature policy will not stop a bank from accepting checks with only one signature.

⁴ The Treasurer, plus any other Board member or the Director

Unrecorded Voids — Of 34 voided checks, 19 were never recorded in the accounting records. As previously noted, one of the recorded voids was erroneously reprinted and issued after a printer jam. Another void was erroneously recorded as check number 5117 (a different, issued check) instead of check number 5114. Not recording all checks that were either used or voided increases the risk that unauthorized payments could be made and that errors could go undetected and uncorrected.

Without accurate bank reconciliations completed on a monthly basis, Authority officials have no assurance that the accounting records are correct or that money is accounted for properly. Furthermore, by not ensuring that all transactions are completely and accurately recorded in the accounting records, the Board lacks the information necessary to monitor the Authority's cash position and make informed financial decisions.

Recommendations

The Board should:

1. Adopt written policies to ensure that the duties for cash receipts, disbursements and bank reconciliations are adequately segregated among employees or, when that is not practical, increase managerial oversight.
2. Discontinue its practice of keeping on file and using signed blank checks.

The Administrative Assistant should:

3. Prepare thorough and accurate bank reconciliations each month and ensure that any discrepancies or reconciling items are promptly identified, reviewed and resolved.
4. Compare canceled check images to the accounting records to ensure that all check numbers, dates, payees and amounts are correct.
5. Accurately record and report all transactions, including voided checks.

The Director should:

6. Review, sign and date each bank reconciliation to indicate approval and review and resolve all discrepancies promptly.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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



EAST HAMPTON HOUSING AUTHORITY

P. O. BOX 2106
EAST HAMPTON, NEW YORK 11937-0241
TEL 631/329-7427 FAX 631/329-5830

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March 10, 2017

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans' Memorial Highway
Hauppauge, NY 11788-5533

Ref.: 2017M-33

Dear Chief Examiner McCracken,

The East Hampton Housing Authority has reviewed the draft audit report sent to our offices on March 3, 2017. The Board of Commissioners appreciates the time and effort your office has invested in supporting the work we do by offering guidance on improvements that can enhance our services to the public.

As we understand the draft provided, there are three opportunities where the East Hampton Housing Authority administration can increase security, oversight, and improve our records keeping. Our board has scheduled a meeting to address each item in the preliminary draft findings. The Corrective Action Plans for those three items where our administration will be implementing changes for your consideration will be sent within 45 days to caps@osc.state.ny.us.

Our administration and board recognizes that there is always room for betterment in our implementation and delivery of services and we do always seek to employ best practices, continually develop staff skills, and work at the highest level of professionalism in our field with all the resources at our disposal.

Sincerely,

Arthur Goldman
Chair

EMAIL: EHHA@optonline.net <http://ehhacc.wixsite.com/eh-housing-authority>

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed the Board minutes, policy manual and bylaws.
- We interviewed employees and Board members who have responsibility over cash disbursements to gain an understanding of the process.
- For three of the Authority's five operating accounts, we reviewed and/or performed the bank reconciliation for one judgmentally selected month, based on disbursement records.
- We randomly selected four checks from each account for the audit period and traced them from the cash disbursement journals to the canceled check images on the bank statements to determine whether the transaction trail was properly recorded and documented. We randomly selected another four checks from each fund and traced them from the canceled check images back to the cash disbursement journals.
- We obtained and reviewed the Authority's cash disbursement journals for its five operating accounts from the accounting software, looking for gaps in the check sequence, duplicate checks and other discrepancies. We requested and received explanations for each identified discrepancy.

We conducted this performance audit in accordance with 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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