

Binghamton Housing Authority

Oversight of Financial Operations

SEPTEMBER 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Binghamton Housing Authority

Audit Objective

Determine whether the Board of Commissioners (Board) and Executive Director (Director) provided adequate oversight of Binghamton Housing Authority (Authority) financial operations.

Key Findings

The Board and Director did not provide adequate oversight of financial operations. The Board did not adopt written policies and the Director did not develop proper internal controls over cash disbursements and electronic payments or financial system user access. As a result:

- Job duties were either not properly separated or not adequately separated for rent receipts and cash disbursements.
- Payments totaling approximately \$152,000 (22 percent) of what we tested were not approved by anyone other than the employee initiating the charge.
- Financial system user access was not properly administered; all nine users had access to all of the financial modules in the system. Therefore, a user could make unauthorized changes to cover inappropriate transactions without detection.
- Errors or irregularities could occur and remain undetected and uncorrected.

Key Recommendations

- Develop adequate internal controls and separate job duties or implement compensating controls.
- Assign financial system user access rights based on job duties.

Officials generally agreed with our recommendations and have initiated corrective action.

Background

The Authority is located in the City of Binghamton (City) in Broome County. The Authority is governed by a seven-member Board, five Commissioners are appointed by the City's Mayor and two are elected by the tenants.

The Board hired a Director who is responsible for the general management, supervision and direction of day-to-day operations.

The Authority operates three housing complexes and provides affordable housing to low-income individuals and families in accordance with relevant provisions of New York State Public Housing Law, and the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). The Authority receives federal funding to provide these services.

Quick Facts

Revenues	\$12.4 million
Amount Examined	\$76,568
Expenditures	\$9.7 million
Amount Examined	\$700,901
Housing Units	641

Audit Period

July 1, 2020 – March 31, 2022

Oversight of Financial Operations

What Is Effective Oversight of Financial Operations?

A board is responsible for overseeing an authority's fiscal activities and safeguarding its resources by ensuring that appropriate policies and procedures are established and enforced. The director should develop procedures to implement board policies and provide clear guidance to employees to ensure the prudent use and safeguarding of authority resources. Internal control procedures should include separating key financial duties and managing financial system user access so no one person controls all aspects of a transaction or has user access rights greater than needed to perform their job duties. Controls should also be implemented to ensure that all financial transactions are accurately accounted for and properly authorized, recorded and reported.

Every financial system user should have their own unique username and password to gain access to the financial system. This helps ensure accountability over work performed and data changed or deleted and limits the possibility of data being compromised by unauthorized users. Users' access should also be limited to only those modules needed for their job function while considering separation of duties requirements. No one person should be able to perform all aspects of a transaction.

...[1]Internal controls over rent receipts and disbursements need to be improved. ...

The Board and Director Did Not Adequately Oversee Financial Operations

We assessed the internal controls for payroll, rent receipts and cash disbursements and determined that the payroll process had adequate controls. However, internal controls over rent receipts and disbursements need to be improved because job duties are either not separated or are not adequately separated. In addition, all nine financial system users, including seven employees, a third-party accounting firm and a temporary accounting employee, were granted access to all of the financial system modules. Because rent receipts and cash disbursement users had unneeded access to modules within the financial system, there is a heightened risk that controls could be circumvented, and a user could make unauthorized changes to cover inappropriate transactions without detection.

This occurred because the Board did not adopt written policies and the Director did not develop internal control procedures for cash disbursement and electronic payment activities or managing financial system user access according to job responsibility and separation of duty objectives. Our review of each process is as follows:

Payroll – The Authority did not use the financial system to process payroll. Instead, employees used a third-party vendor's software to enter time worked and department heads approved the time sheets. The third-party vendor then processed the payroll. We reviewed the access to this software and found the

separation of duties adequate. The Director appropriately monitored payroll processing by reviewing the payroll registers and check registers for accuracy biweekly. We also tested the Director's payroll history for 2021 and found it matched the Board-approved amounts.

Rent Receipts – Monthly rents receivable were generated by the financial system based on signed lease terms that a typist inputted into the system. A clerk was responsible for collecting monthly rents, applying the receipts against rents receivable and preparing the bank deposit slip. The deposit was forwarded to a third employee who deposited the rents at the bank. The accountant reconciled monthly rent receipt records to the bank statement. The typist and building managers at the Authority were responsible for the collection of unpaid rents and/or the initiation of eviction proceedings in accordance with Authority policy.

These controls would be adequate if the clerk had not been granted access to all of the financial system modules. Accordingly, the clerk could modify rents receivables in the financial system to avoid detection of misappropriated rent. We traced the terms of 18 signed leases to monthly rent receivables totaling \$6,478 and found the rent receivables to be properly recorded. We also reviewed the financial system audit logs for the audit period and determined that the clerk did not make any adjustments to monthly rent receivables in the financial system.

Cash Disbursements and Electronic Payments – The bookkeeper's duties were not adequately separated. She added vendors, inputted and paid invoices, affixed electronic signatures of authorized signers to checks and mailed disbursement checks without further approval. The disbursements were not reviewed by the Board or anyone else after they were processed to ensure that they were accurate and for the purpose intended.

During the audit period, disbursements totaling over \$9.8 million were automatically processed and the financial system affixed the Director and accountant's signatures. We reviewed 75 disbursements totaling \$700,901 made during our audit period¹ and found 64 payments totaling \$151,985 (22 percent) were not approved for payment by anyone other than the employee initiating the charge. In addition, we reviewed five electronic fund transfers totaling \$22,930 and one outgoing wire transfer for \$1,722 made during our audit period. Based on the documentation we reviewed, the 75 purchases and six transfers were supported and consistent with Authority purposes.

These weaknesses occurred because the Board has not adopted written policies and the Director has not developed proper internal controls over cash disbursement and electronic payment activities or financial system user access. As a result, errors or irregularities could occur and remain undetected and uncorrected.

The
bookkeeper's
duties
were not
adequately
separated.

¹ Refer to Appendix B for information on our sampling methodology.

What Do We Recommend?

The Director should:

1. Restrict user access to the financial software system granting only those permissions necessary to perform job duties while considering separation of duty objectives.
2. Develop internal controls for cash disbursement and electronic payment activities including appropriate separation of duties and an independent review of cash disbursements.
3. Ensure vendor invoices are approved for payment by an official other than the employee initiating the charge.

The Board and the Director should:

4. Develop and adopt written policies and procedures for the authorization of cash disbursements and electronic payments.

Appendix A: Response From Authority Officials



BINGHAMTON HOUSING AUTHORITY

35 Exchange Street, Binghamton, N.Y. 13901-3801 . Phone (607)723-9491 . Fax (607)722-5031

Jean Westcott, Executive Director

August 22, 2022

Ms. Ann C. Singer
Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-8503

Ms. Singer:

The Board and Management of the Binghamton Housing Authority would like to express our appreciation for the recent NYS Comptroller Office audit of our financial operations. The auditors were thorough and professional. Throughout the process, the ongoing discussions and reviews resulted in expected recommendations that will enhance the overall operations for stability, transparency, consistency and fiduciary excellence. We agree with the Key Findings, noting that, although we need to change processes and create policies, our financial records are sound. We have already begun or completed corrective action plans, as attached.

Sincerely,

✓ Charles Kramer
Board Chairman

Enc.



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Jean Westcott, Executive Director

CORRECTIVE ACTION PLAN

Unit Name: Binghamton Housing Authority
Audit Report Title: Oversight of Financial Operations
Report of Examination
Audit Report Number: 2022M-87

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed.

Audit Recommendation:

Restrict user access to the financial software system granting only those permissions necessary to perform job duties while considering separation of duty objectives.

Implementation Plan of Action(s):

The financial software allows for general access and financial access. Most staff that use or are assigned roles in the software have only general access; for instance Maintenance Staff in the Work Orders module. There are a limited number of staff with financial access and an even smaller number of staff with ALL financial access (Executive Director, Administrative Project Manager, Accountant). Personnel have now been trained to assign only portions of the financial software that are relevant to employee duties. For instance, the Clerk handling Cash receipts does not have access to Accounts Payable, General Ledger or Tenant Rent calculations.

Implementation Date:

Review and role assignment began in June 2022 with an expected completion date in September 2022.

Person Responsible for Implementation:

Executive Director has oversight of the process, review and approval of assigned modules.

Audit Recommendation:

Develop internal controls for cash disbursement and electronic payment activities including appropriate separation of duties and an independent review of cash disbursements.

Implementation Plan of Action(s):

Invoices for previously approved purchases are reviewed and properly entered into the agency accounting system by Clerical Accounting Personnel. Invoices for payment are selected for payment based on date due, contractual agreements, vendor requirements or other criteria as noted. Clerical Accounting personnel will generate a listing of invoices/vendors to be paid. This list will be reviewed and approved by the Chief Financial Officer/Accountant, Deputy Executive Director/Administrative Project Manager and/or Executive Director. Once payments have been approved, those invoices will be locked in so no other invoices may be added and paid. Checks for payments are generated and reports issued for review of payments.

Implementation Date:

Computer Financial system was updated June 2022. Clerical Accounting Personnel authorizations in system are limited to only entering invoices, generating reports and payments. Check printing procedures were updated so after selection of invoices to be paid no others may be added. Electronic signatures may only be added to the selected list. Check listings are compared to invoices selected listings, preferably by a staff other than the staff who selected the invoices.

Person Responsible for Implementation:

All Accounting Staff and Management Staff with approval process are responsible for the proper review and approval of cash disbursements and electronic payment activities. The Executive Director is responsible for oversight of all staff involved in the process.

Audit Recommendation:

Ensure vendor invoices are approved for payment by an official other than the employee initiating the charge.

Implementation Plan of Action(s):

Expected purchases over \$500.00 require a Purchase Order signed by the Executive Director prior to the purchase. The Contract Administrator compiles a list of PO's. Receipts/invoices are turned in to the Contract Administrator after purchase for matching to the PO and approval for payment. Blanket Purchase Orders with spending caps are on file for vendors commonly used (such as Lowes) for purchases under \$500.00. Other purchases under \$500.00 may occur without a purchase order, but must be prior approved and have the valid invoice and/or receipt reviewed and approved by the employee's supervisor, Chief Financial Officer/Accountant, Deputy Executive Director/Administrative Project Manager and/or Executive Director.

Implementation Date:

The Binghamton Housing Authority Management has held meetings with maintenance supervisors, who do the majority of purchasing, since June 2022 to discuss the PO process.

Person Responsible for Implementation:

All persons who make purchases on behalf of the Binghamton Housing Authority must follow purchasing guidelines. The Contractor Administrator will track PO's. Clerical Accounting Personnel will ensure matching of PO and invoices. The Chief Financial Officer/Accountant,

Deputy Executive Director/Administrative Project Manager and/or Executive Director will ensure all documentation is present and accurate for payment of invoices. Periodic formal or informal review/audit of files and purchases will be conducted as directed by the Executive Director.

Audit Recommendation:

Develop and adopt written policies and procedures for the authorization of cash disbursements and electronic payments

Implementation Plan of Action(s):

The Binghamton Housing Authority "Cash Management Policy" outlines the policy and procedures for invoice review, approval and selection for payment, check signing authority including electronic signature requirements, electronic transfer of funds, wire transfer of funds and bank account reconciliations. The Binghamton Housing Authority "Cyber Security Breach Policy" addresses security of all digital documents and records, including measures taken to prevent fraud, invasion and remediation. It outlines employee expectations and responsibilities.

Implementation Date:

"Cash Management Policy" was approved by the Binghamton Housing Authority Board of Directors on June 27, 2022, Resolution number 22-46. "Cyber Security Breach Policy" will be approved at the August 2022 Board of Directors meeting.

Person Responsible for Implementation:

Binghamton Housing Authority Board of Directors authorizes the Executive Director to ensure policy is followed.

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed officials and personnel to gain an understanding of internal controls over Authority operations.
- We reviewed user access for the Authority's financial system and evaluated permissions to determine whether user access was properly separated and based on job function.
- We reviewed audit logs for the clerk responsible for rent collections to determine whether she performed any incompatible duties on the financial system.
- We, on a non-judgmental basis, selected six signed leases from each of the Authority's three housing complexes (18 total) and traced lease terms to the rental information generated by the financial software.
- We reviewed internal controls over payroll processing and the Director's monitoring of payroll. Further, we reviewed the Director's 2021 payroll history and verified that it was in accordance with Board-approved compensation.
- We inquired about authorized signers on Authority bank accounts and authorizations required to execute online banking transactions.
- We judgmentally selected 75 cash disbursements totaling \$700,901 of a total of over \$9.8 million during our audit period. We selected our sample from disbursements over \$100, payments to Authority employees or with the same last name as an Authority employee, and/or from disbursements that had a higher likelihood of fraud while limiting the total number of items selected from the same payee. We also reviewed five electronic fund transfers totaling \$22,930 and one outgoing wire transfer payment for \$1,722 made during our audit period. We reviewed supporting documentation, such as purchase orders, receiving reports, vendor's invoices, receipts and payment authorizations to determine whether disbursements were appropriately documented and for appropriate Authority purposes.

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.

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.

Good management practices dictate that the Board has the responsibility to initiate corrective action. As such, the Board should prepare a written corrective action plan (CAP) that addresses the recommendations in this report and forward it to our office within 90 days. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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