



Hudson Housing Authority

Board Oversight

Report of Examination

Period Covered:

July 1, 2014 — May 18, 2016

2016M-302



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2016

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 Hudson 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 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 Hudson Housing Authority (Authority) is located in the City of Hudson (City) in Columbia County. The Authority was established pursuant to Section 450 of the New York State Public Housing Law to provide low-rent housing for qualified individuals in accordance with provisions of Public Housing Law and the rules 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. The Authority's 2015-16 operating budget for the low-income housing program totaled approximately \$867,000. The Authority's fiscal year runs from July 1 through June 30.

The Authority's Board of Commissioners (Board) is composed of seven members: five appointed by the City Mayor and two elected by tenants. The Authority operates independently of the City, managing its own operational and financial affairs. An Executive Director (Director) is responsible for the Authority's day-to-day operations. The administrative assistant handles all rental and financial transactions. The Authority administers two¹ main programs: the public housing program and the Section 8 housing voucher program in the City. The Authority maintains 132 public housing units and currently administers 67 of the 130 authorized Section 8 housing choice vouchers that are used in the Hudson area.

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 July 1, 2014 through May 18, 2016.

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

¹ There are two HUD Section 8 voucher programs operating in Hudson: one program restricted to the Hudson ZIP code and a second program, which is countywide.

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 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 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 sufficient oversight. In addition, every claim against the Authority must contain enough supporting documentation to show that purchases of goods and services represent actual and necessary expenditures for Authority purposes. To prevent paying claims that are not for valid Authority purposes, the Board should audit all claims prior to payment or appoint a claims auditor to do so on its behalf.

During our audit period, the Authority had cash receipts of approximately \$1,036,000. 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 bills, receives and records cash receipts, and reconciles bank accounts. The administrative assistant also prepares the monthly financial report for the Board. In addition, the Board has not established compensating controls such as reviews of the administrative assistant’s work. We traced rent rolls to receipts for one month; compared three months of receipts to amounts recorded in the Authority’s rent receipts software, deposit slips and bank statements; and reviewed bank reconciliations for three months. We found that billings, receipts and bank reconciliations were properly performed.

Payment of Claims — During our audit period, the Authority paid 1,115 claims totaling \$1,334,101. However, the Board did not perform an audit of claims or designate a claims auditor to do so. The Director told us that the Board stopped approving claims in 2011 or 2012 because Board meetings often lacked a quorum. The lack of a Board quorum made it difficult to pay vendors in a timely manner and avoid late fees. As a result, Authority officials began writing checks and paying bills as received without a claims audit. The Director and a Board member manually signed checks

each week. The Board member reviewed the checks for agreement with the invoices and check copies, but other than signatures on the checks, the Board member did not document approval of the claims. If the Board member was unfamiliar with purchases, the Executive Director supplied the reasons and support. The Board then reviewed and approved the claims at the Board meetings after the claims were already paid.

We examined 71 voucher packets containing 90 invoices totaling \$38,179. We found no evidence of Board approval for 89 of the invoices totaling \$38,112 that required Board approval.² Vouchers included credit card payments for three selected months, selected payments to related parties and 25 general disbursements. We also compared checks written to bank statements and reviewed statements for each of the Authority's credit cards for three months. We found the checks matched the accounting records and the claims contained enough documentation to show that purchases represented actual and necessary Authority expenditures. We also found that credit card payments were made based on invoices instead of credit card statements. The Authority could not locate five monthly credit card statements for reconciliation to invoices and payments made. In addition, 25 claims for \$6,500 were not in accordance with Authority purchasing policies because these claims lacked quotes.

While the Board provides some oversight of Authority operations, the cash receipt, cash disbursement and bank reconciliation duties are not segregated and related work is not reviewed. In addition, the Board does not ensure that a deliberate, thorough and independent audit of claims is performed prior to payment. As a result, there is an increased risk that goods and services may not be obtained at the lowest possible cost or that errors or improper transactions could occur and not be detected and corrected in a timely manner.

Recommendations

The Board should:

1. Adopt written policies to ensure that the duties for cash receipts, cash disbursements and bank reconciliations are segregated among employees or that increased managerial oversight is in place.
2. Perform a deliberate and thorough audit of claims prior to payment or appoint a claims auditor to do. Such an audit should include ensuring that claims are in accordance with purchasing policies and credit card payments are based on credit card statements.

² One invoice was for a check for a security refund to a former tenant that did not require Board approval.

The Director should:

3. Establish Board-approved procedures for cash receipts, procurements and cash disbursements.
4. Ensure that credit card statements are reconciled to credit card invoices and retained with payment documentation.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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

HUDSON HOUSING AUTHORITY

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HUD NY61-1

Proud, Progressive, Concerned

October 14, 2016

Tenneh Blamah, Chief Examiner
OFFICE OF THE STATE COMPTROLLER,
33 Airport Center
New Windsor, NY 12553

To Whom it May Concern,

The Hudson Housing Authority would like to extend its thanks to the comptroller's office for randomly selecting us for an in depth audit. Be advised that although we have never had such an experience, we are grateful for the opportunity and the assistance afforded by your auditor. This experience has made us realize that in order to retain the public trust there are some aspects of this operation that need to be tightened up.

With an office staff of two, many times it is hard to segregate duties of this operation in accordance with Comptrollers recommendations. However, in conjunction with the Board of Commissioners, we are determined to create a comprehensive program that will provide a secure system that will satisfy the NYS Comptroller's Office while still maintaining the efficient and effective operation of this agency.

-Payment of Claims – The Housing Authority has since instituted a program whereby the co-signer, not only reviews and signs the checks prior to payment, but is required to sign an affidavit that the claim was approved. Board members will then be presented with the affidavits, as well as the check register at the next board meeting. The Housing Authority has used this method of paying by warrant for many years with no prior observations or findings by HUD auditors.

-The five monthly credit card statements that were unavailable for review were nearly 2 years old and the responsible credit card agencies were notified to supply copies while the auditor was on site. The statements were not supplied prior to the end of the audit. Invoices over 2 years old are not stored due to the lack of storage space in our system.

-The 25 claims for \$6500 not in accordance with Authority purchasing policies by not having quotes is legitimate, not that there were no quotes but the documentation could not be located for each individual item. At this time we have instituted a system whereby all quotes for purchases will be documented in a manual. Thank you for pointing out this lack of verifiable documentation.

-Cash receipt, cash disbursement and bank reconciliation. In a two person rapid paced office environment, it is difficult at best to segregate all the above mentioned duties. Board members are presented with a detailed history of expenditures as well as the bank reconciliation statements. Also presented at board meetings are detailed reports regarding the cash receipts and disbursements for review.

The Board should:

Recommendation No. 1 - Adopt written policies to ensure that the duties for cash receipts, cash disbursements and bank reconciliations are segregated. Among employees or that increased managerial oversight is in place.

During the time of the audit when the auditor explained this particular observation, the office staff instituted a policy whereby the bank statements are examined by the Executive Director prior to presentation to the account clerk thereby enabling the discovery of any inconsistencies in the reconciliation process. This method was in effect at the time of the audit.

Although there have been no findings or observations in previous HUD audits regarding this issue, the Housing Authority will either appoint a Board Member, or retain the services of our fee accountant, to perform the role of claims auditor, whereby the risk that errors or improper transactions will be detected and corrected in a timely manner.

Recommendation No. 2 – Perform a deliberate and thorough audit of claims prior to payment or appoint a claims auditor to do so. Such an audit should include ensuring that claims are in accordance with purchasing policies and credit card payments are based on credit card statements.

As pointed out in the prior dissertation, the Board of Commissioners will appoint a claims auditor or enlist the services of our fee accountant to perform this service.

The Director should:

3. Establish Board-approved procedures for cash receipts, procurement and cash disbursements.

All cash receipts are currently being processed by removing cash from the vending machines, laundry machines etc. and presenting the cash to the accounts clerk for counting. Once the cash is counted by the clerk it is signed off and presented to the Executive Director who also counts and signs off and a deposit slip is prepared and the cash is deposited in the bank on a regular basis.

A procurement record will be kept documenting obtaining quotes from vendors prior to making purchases. According to the HUD Annual Contributions Contract, when the annual budget is approved by the Board of Commissioners, it is basically an endorsement of the HUD procurement policy. It is then the role of the Executive Director who is the Contracting Officer to procure goods and services for the agency as per the approved procurement policy, within that

budget.

4. Ensure that all credit card statements are reconciled to credit card invoices and retained with payment documentation.

In the future and as of the issuance of this report all, credit card payments will be based on credit card statements with the proper documentation.

Once again, I reiterate that the assistance provided by the auditor was instrumental in helping us to become more aware of a lot of things that we take for granted in a small staffed operation. At first notice of the NYS comptroller's audit, there was great anxiety within this office. Not for any reason other than fear of the unknown. Although we had our differences at times, the auditor congenially explained why he was citing us for certain issues in such a way that we could see the concerns.

It was an inconvenience, a disruption in the normal routine, but all in all it was educating and productive.

Thanks for your ~~cooperation~~.

Yours truly,

~~JEFFREY K. FIRST~~
Executive Director

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We made inquiries of officials and employees to document Authority practices and procedures.
- We traced rent rolls to receipts for one month to ensure all rentable units were billed. We selected a recent month to verify current rental billings.
- We traced the last three consecutive months of rent receipts from receipt records to deposit slips, to the general ledger and to bank statements. We also examined the bank reconciliations for the same three months.
- We examined 71 voucher packets containing invoices totaling \$38,179 which included general disbursements and selected payments to staff and officials for compliance with purchasing rules, approvals, claims audit requirements and payment accuracy. We judgmentally selected the general disbursements based on procurement policy thresholds. We included all individual payments, including payments to the Director and several petty cash payments based on the collective experience of the audit team.
- We compared checks written to bank statements and to endorsements to determine if the checks matched the Authority's accounting records.
- We judgmentally selected and reviewed three month's statements for each of the credit cards for validity of the purchase and propriety of payments. Months were selected based on higher numbers of transactions and dollar values.

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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