



Cohoes Housing Authority

Internal Controls Over Payroll

Report of Examination

Period Covered:

October 1, 2012 — September 30, 2013

2013M-373



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

Dear Housing Authority Officials:

A top priority of the Office of the State Comptroller is to help authority officials manage authorities 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 authorities' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving 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 Cohoes Housing Authority, entitled Internal Controls Over Payroll. 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 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 Cohoes Housing Authority (Authority) is located in the City of Cohoes (City) in Albany County. The Authority was established pursuant to Section 448 of the Public Housing Law to provide low-rent housing for qualified individuals in accordance with relevant provisions of State Public Housing Law and the rules and regulations prescribed by the Federal Department of Housing and Urban Development (HUD).

The Authority's 2013 fiscal year operating expenditures totaled approximately \$1.9 million. These costs were funded mainly by rental income from tenants and subsidies from HUD. The Authority maintains 309 public housing units and administers 327 Section 8 Housing Choice Vouchers.¹

The Board of Commissioners (Board) is comprised of seven Commissioners. The City's Mayor appoints five of the Commissioners and the tenants elect the other two Commissioners. The Board is responsible for the general management and control of the Authority's financial affairs. The Board appoints an Executive Director who is the Authority's chief executive officer and is responsible for the Authority's day-to-day operations.

The Authority uses a third-party vendor to process payroll. The Office Administrator is responsible for reviewing time records and submitting all necessary information to the vendor for processing.

Objective

The objective of our audit was to assess the Authority's payroll process. Our audit addressed the following related question:

- Are there effective internal controls in place to ensure that payroll payments and leave accrual records are accurate?

Scope and Methodology

We examined the Authority's payroll process for the period October 1, 2012 through September 30, 2013.

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 is included in Appendix B of this report.

¹ The housing choice voucher program is the Federal government's major program for assisting very low-income families, the elderly and the disabled to afford decent, safe and sanitary housing in the private market.

**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 have initiated, or 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.

Payroll

The Board is responsible for designing a system of internal controls over payroll. Internal controls over a payroll system include effective policies and procedures to provide reasonable assurance that assets are properly safeguarded; payroll transactions are authorized, recorded and reported properly; and leave benefits are properly provided, used and accounted for. It is management's responsibility to implement an effective timekeeping system to ensure employees' hours worked are accurately recorded. Also, to ensure employees receive the compensation intended by the Authority, the Board must clearly define and authorize such pay rates in written labor agreements and/or Board-approved pay rate schedules.

A good system of internal controls over payroll also includes effective managerial oversight and the proper segregation of duties. Where practicable, duties should be separated so that one employee does not control all phases of the payroll process. When complete segregation of duties is not possible, active supervision and oversight become even more important components of an effective internal control system. Failure to establish and adhere to a sound system of internal controls increases the risk that abuse or errors may occur and go undetected and uncorrected.

We found that there is inadequate oversight of the Authority's payroll processing and accounting for leave accruals. Also, the timekeeping system used to record administrative employees' time worked does not accurately capture the hours worked. Finally, seven of the eight part-time employees did not have documented pay rates.

Segregation of Duties – Due to limited staffing at the Authority, there was no segregation of payroll-related functions. The Office Administrator performed all payroll functions with little or no supervision. This included collecting, reviewing and submitting payroll data to the Authority's third-party vendor for processing, reviewing the processed payroll records, authorizing the disbursement of payroll to employees and maintaining and updating the leave records. Absent any segregation of duties for processing and approving payroll, oversight of payroll processing procedures is an important role to be performed. However, the Executive Director did not perform an independent review of the processed payroll and leave reports.

Due to the lack of controls and oversight related to processing payrolls and maintaining leave records, we reviewed payroll and leave accrual

records for three months.² We used timesheets and payroll records to recalculate the number of hours each employee worked. We used the recalculated hours worked to determine total pay for the payroll period, which we then compared to the payroll records to determine the accuracy of the payments. We verified that each instance of leave time taken by employees resulted in a reduction in the employee's leave accrual balance. In addition, we also verified that the employees earned leave accruals at the established rate. Based on our review of payroll and leave accrual records, we found minor errors, which were discussed with Authority officials. While no significant errors were identified, when there is a lack of segregation of duties and oversight by management related to payroll, there is the opportunity for errors and abuse to occur and remain undetected.

Timekeeping System – The Authority uses timekeeping systems to track all employee work hours. The maintenance and part-time summer employees use a time clock to document their work hours. We found no exceptions during our testing related to the timekeeping for hours worked for the maintenance and summer employees.³ However, we found deficiencies for the hours worked for five of the seven administrative employees that tracked their time using the log-in and log-out times on the employees' computers.⁴ Of the 82 weekly payrolls reviewed for administrative employees, there were 18 instances where we could not determine the employees' hours worked for the week because of the ineffective timekeeping system. This method of timekeeping did not allow for accurate tracking of employees' hours worked for several reasons.

- Multiple employees used one computer to log-on and log-off during the day. Therefore, it was not possible to get an accurate accounting of when a single employee logged on and off during the day to indicate that employee's work hours.
- Employees would occasionally forget to log-off of their computers at the end of the day resulting in no ending work time for the employees.
- At certain times employees must leave their normal worksites to perform other Authority business, such as attending meetings, performing home inspections or making bank

² We selected the months of February 2013, July 2013 and September 2013 for review. We reviewed all employee payroll records for these 12 payroll periods. The number of employees ranged from 11 to 17 and in total included 11 full-time employees and eight part-time or seasonal employees.

³ Included in same sample test noted in footnote 1

⁴ The Office Administrator and Senior Account Clerk hours tracked their hours worked using a timesheet.

deposits. Although an employee was still conducting business on behalf of the Authority, the timekeeping system would indicate that the employee's hours worked differed from their scheduled hours because the employee would log-off their computer prior to the end of their scheduled end time. In these cases, the Office Administrator would use the employee's scheduled hours to calculate hours worked during the day.

When the timekeeping system does not accurately track employees' hours worked, the Authority is at risk of incorrectly compensating employees by either over- or under-paying them for the hours they actually worked.

Pay Rates – For seven of the eight part-time employees employed at the Authority, there was no documentation that substantiated their hourly pay rate. Written pay rates for these employees did not exist because the Board did not establish pay rates for this class of employee in either a policy or by resolution. Instead, Authority officials verbally communicated pay rates to employees.

Five of the seven employees were paid minimum wage, while the other two employees received a higher hourly rate. The two employees who were paid at a rate higher than minimum wage had their pay increases approved by the Executive Director, but neither their beginning wage rate nor their wage rate after the increase was explicitly approved by the Board. When wage rates are not established, documented and approved by the Board, there is no documentation to determine if employees are paid at the correct pay rate.

Recommendations

1. The Board should segregate duties related to recording, authorizing and disbursing payroll to the extent possible given the limited staffing.
2. The Board should establish adequate oversight procedures for payroll processing and for the accumulation and use of leave time.
3. The Executive Director should implement a timekeeping system for administrative employees that accurately records the hours worked by those employees.
4. The Board should ensure pay rates are formalized in writing to clearly define the compensation due to employees.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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

Wil Hebert
Chairperson
Walter Harbacz
Vice-Chairperson
Carolyn Dion
Charles Alonge
Shawn Higgins
Colleen Mayo
Melanie Taylor



Cohoes Housing Authority
Administrative Building
100 Manor Sites
Cohoes, NY 12047
Tel: (518) 235-4500 Fax: (518) 235-8120
CohoesHousing.org



Charles Patricelli
Executive Director

Brian Kremer
Attorney

Tracey Freemantle
Accountant

February 28, 2014

NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear Sir or Madam:

The Cohoes Housing Authority has received the preliminary draft report (2013M-373) recently performed by your agency. We have also met with your staff to review the report and recommendations. Our Corrective Action Plan to your recommendations are as follows:

Segregation of Duties:

Payroll is prepared weekly by the Office Administrator or in their absence, the Senior Account Clerk Typist. Once prepared, the Executive Director will review the payroll entries, approve the payroll and sign each payroll submitted. On a quarterly basis, payrolls will be submitted to the Board of Commissioners for their review of all paid employees, pay rates and accrued leave time.

Timekeeping System:

Office employees are required to sign in/out of their computer's for timekeeping purposes. This log report is maintained by the Office Administrator. In the event an employee signs in late, signs out early or must leave the office for a business function (visiting sites, meetings, etc.), a written notification is to be submitted to the Office Administrator. The written notification will include date, time and reason for the sign in/out discrepancy.

Pay Rates:

The Cohoes Housing Authority hires both part time temporary high school or college students as part of our youth employment program. Any new hires or re-hires beginning wage rates and any increase in wage rates will be submitted to the Board of Commissioner for approval through a Board Resolution.

We have found this Audit and the Audit Report to be very useful and we appreciate your time in reviewing our agency. Although, as stated in your report, the errors were minor, we take all issues seriously and constantly look for areas of improvement.

We again appreciate your time and look forward to working together in the future. Should you have any questions, please do not hesitate to contact this office.

Very truly yours,

Charles V. Patricelli
Executive Director

Wil Hebert
Chairperson of the Board of Commissioners

CVP/ko

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our examination was to assess the Authority's financial operations. 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: control environment, chief fiscal officer records and reports, cash management, cash receipts and disbursements, purchasing, claims processing, payroll and personal services, information technology, application controls and rental fees.

During the initial assessment, we interviewed appropriate Authority officials, performed limited tests of transactions and reviewed pertinent documents such as Authority policies, by-laws, Board minutes, financial records and reports and payroll records. In addition, 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 that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit areas that appeared to have weak controls in place. We selected payroll for further audit testing.

To accomplish our audit objectives and obtain valid audit evidence, our procedures included the following steps:

- We reviewed collective bargaining agreements (CBA) and personnel policies, and interviewed Authority officials to gain an understanding over the payroll process.
- We selected three months of payroll records, and, for each payroll reviewed, we used timesheets and payroll records to recalculate the number of hours each employee worked. We compared our recalculation of hours worked to payroll summary reports used by the Office Administrator to aggregate weekly payroll information. We also compared our recalculation of hours worked multiplied by our determination of pay rates against the information used by the third-party vendor to process payroll. We obtained pay rate information from CBAs, the Authority's personnel policy and Board resolutions.
- We verified that all employees paid during the sample months were actual employees of the Authority when they received payment.
- We reviewed payroll and leave accrual records during the sample months to verify each instance of leave resulted in a deduction in the employees leave accrual balances by comparing the payroll summary sheets against the information used by the third-party vendor that processes payroll. In addition, we verified that each instance of leave had appropriate support on file.
- We reviewed leave records for all employees entitled to leave accruals and verified that

each employee earned leave accruals in accordance with the Authority's personnel policy or applicable CBA.

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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