



Glens Falls Housing Authority Tenant Rents

Report of Examination

Period Covered:

April 1, 2013 — August 31, 2014

2014M-370



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2015

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 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, 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 Glens Falls Housing Authority, entitled Tenant Rents. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in 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 Glens Falls Housing Authority (Authority) is located in the City of Glens Falls (City) in Warren County. The Authority was established pursuant to Section 486 of New York State Public Housing Law (Law) to provide low rent housing for qualified individuals in accordance with relevant provisions of Law and the rules and regulations prescribed by the Federal Department of Housing and Urban Development (HUD).

The Authority's 2014 fiscal year operating expenditures totaled approximately \$5.7 million. These costs were funded mainly by rental income from tenants and subsidies from HUD. The Authority has three senior citizen high-rise apartment buildings (high-rise) that contain 256 public housing units and one low-income families' apartment complex (apartment complex) with 50 public housing units. In addition, the Authority administers approximately 660 Section 8 Housing Choice Vouchers.¹

The Board of Commissioners (Board) is comprised of seven Commissioners. The City's Mayor appoints five 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 confidential assistant to the Executive Director (assistant) oversees the accounting operations, including the receipt of rental payments from tenants. The Authority also has four housing representatives who have various responsibilities, including collecting rents from tenants, maintaining tenant information and processing applications for prospective tenants.

Objective

The objective of our audit was to assess the Authority's internal controls over tenant rents. Our audit addressed the following related question:

- Did the Board develop and implement adequate internal controls over the rent payments received from tenants?

Scope and Methodology

We examined the Authority's financial transactions related to tenant rents for the period April 1, 2013 through August 31, 2014.

¹ This is a federal program to assist very low income families, the elderly and persons with disabilities with housing in the private market place.

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.

**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.

Tenant Rents

The Board is responsible for establishing internal controls to properly safeguard the Authority's assets. It is important for the Board to establish policies and procedures to provide assurance that tenant rents are adequately supported, safeguarded, accounted for and deposited. Internal controls also include segregating duties so that one employee does not control all phases of a transaction. When it is not practical to segregate duties, Authority officials should implement effective compensating controls such as having management review the work performed by staff.

To maximize internal controls over a computerized accounting system, an employee should be granted the minimum rights needed to properly complete the job assignment. Additionally, an audit trail report² should be reviewed on a regular basis to ensure that employees are processing transactions that are part of their assigned job duties. Further, such a review should be performed by someone who is not involved with the day-to-day rental collection accounting program (computer program) operations.

Well-designed internal controls over tenant rents also provide for timely supervision of those charged with handling money and a reliable accountability of cash collected.³ In addition, rents collected should be deposited as soon as possible to minimize the risk of theft or loss. Issuing receipts for the rents collected is another important control over the rent collection process because it provides documentation for the rents paid to both the tenant and Authority officials.

The Board did not adopt adequate procedures for processing tenant rents collected to ensure payments were safeguarded and deposited in a timely manner. Authority officials need to improve internal controls to better safeguard these receipts. We found that the duties within the Authority's office were not adequately segregated and the compensating controls put in place were insufficient. Additionally, receipts were not issued to apartment complex tenants for rent collected and rent money was not adequately secured in the Authority's office. Further, the assistant had full access rights within the Authority's computer program and was responsible for reviewing audit trail reports. Finally, rent payments paid in cash totaling more than \$4,400 were deposited five or more business days after they were collected.

² An audit trail report is a software control that provides a way to determine the identity of users who access the computer program and which transactions were processed.

³ For example, by using duplicate press-numbered receipts and daily collections reports

As a result of these weaknesses, errors may occur, go undetected and remain uncorrected.

Segregation of Duties – One clerk is responsible for collecting most rent payments from tenants. The clerk collects rent at the Authority’s office (office) located at one of the high-rises and also has scheduled hours when she collects rents at the other two high-rises a few afternoons during the month.⁴ All three building locations have a locked drop box where rent payments may be placed when the clerk is not available. All rent collected is brought to the office to be counted, recorded in the computer program and prepared for deposit.

Rents are paid in cash, check or money order. For cash payments, the clerk issues a receipt to the tenant from a press-numbered duplicate receipt book. There are separate duplicate receipt books used for the three locations where rents are collected. For rents paid by check or money order, a computer-generated receipt is printed after the payment has been recorded in the computer program and is placed in the tenant’s individual mailbox. However, the clerk does not issue computer-generated receipts for rents received for one of the high-rises and the apartment complex. The clerk told us that receipts are not issued for rents collected for all Authority buildings because this has always been the Authority’s practice and partially because the Board failed to establish control procedures over tenant rents.

After rents are collected and recorded in the accounting system, the clerk prints a deposit report, fills out a bank deposit slip and takes the deposit slip and rents collected to the bank. At the beginning of the month, when the majority of rents are collected, the clerk usually goes to the bank daily. If rents collected are not deposited on the same day as received, the clerk locks them in her file cabinet. In the clerk’s absence there are four other office employees available to collect rents. These employees issue duplicate press-numbered receipts for any rent paid in cash and lock all the rents received in the clerk’s file cabinet. However, even though the clerk’s file cabinet is locked, the rent money is not adequately secured because the other employees have access to the cabinet key and could easily access any rent money collected.

After the clerk deposits the rents collected, she gives the deposit report, duplicate receipts and the validated deposit receipt from the bank to the Executive Director’s assistant. The assistant compares the daily deposit report with the deposit receipt from the bank. At the end of each month, the assistant reconciles the bank statements and

⁴ Tenants living in the apartment complex may pay their rent in person or mail their payments to the Authority’s office. In addition, the high-rise tenants may mail rent payments to the office.

compares the rents recorded in the computer program to the deposits listed on the bank statements to ensure they agree.

The assistant provided a certain level of oversight for the rents collected. However, these compensating controls were insufficient because the assistant used reports generated by the clerk as part of the review process. Additionally, three other office employees have job duties that could be modified to help better segregate the rent collection process. For example, someone other than the clerk could compare the amounts collected with the deposit reports to ensure they agree, prepare the deposit slips or make the deposits.

Computer Access and Audit Trails – We examined the employees’ access rights to the computer program and found computer access was not properly restricted. The assistant had full access rights and as a result could add and remove users from the computer program. In addition, two employees whose current positions with the Authority no longer involve collecting rents still had daily access to the program. Furthermore, the assistant maintained a list of all employees’ user names and passwords used to log onto their individual work stations.⁵ As a result, the assistant has the ability to sign into another employee’s work station and access and make adjustments to tenant accounts under that employee’s user name.

We also found that the assistant was responsible for reviewing the audit trail report generated from the computer program. However, the report was not reviewed on a regular basis; instead, it was reviewed when there was a problem with the program. Typically, problems can occur when a tenant changes housing programs⁶ and is erroneously listed in two different programs at the same time. If this occurs, the program will give a “fatal error” message and the assistant will then review the audit trail to ensure that the tenant is removed from the old program on the last day of the month and entered in the new one on the first day of the following month.

The weaknesses in employees’ access rights and not having adequate audit trail reviews increases the risk that adjustments could be made to tenant accounts and go undetected. As a result, Authority officials could not readily determine who entered or modified the rent collection information.

⁵ The assistant kept this information to download virus protection and other software updates to the individual work stations.

⁶ The Authority has federally funded housing programs for both low-income senior citizens and families.

Timeliness of Deposits – We reviewed 45 tenant accounts from December 2013 with rents collected totaling \$14,429⁷ to determine if tenant rents were deposited in a timely manner and found no exceptions. We also reviewed all 112 tenant accounts for April and July 2014 with \$31,784 in rents and related fees⁸ collected that were paid in cash and remitted to the clerk. We found that all these payments were properly deposited. However, 14 of these cash rent payments totaling \$4,493 (13 percent) were deposited five or more business days after they were collected. For example, two rent payments totaling \$896 were received on July 1, 2014 but not deposited until July 10, 2014, six business days later.

In addition, we reviewed all 28 tenant accounts as of August 18, 2014 for which \$7,483 in rents had not yet been paid to determine if the tenant rent obligations due were later collected or were properly monitored for collection. We found that these outstanding rent obligations were either collected at a later date or were followed up on in a timely manner.

Although our testing found relatively small exceptions, without implementing control procedures to adequately safeguard tenant rents there is an increased the risk that errors or irregularities could occur and go undetected.

Recommendations

The Board should adopt written procedures for tenant rents that:

1. Properly segregate the job duties for tenant rent collection among the office employees or provide additional managerial oversight over the process.
2. Ensure the timely deposit of tenant rents.
3. Ensure receipts are issued for all tenant rents collected.

Authority officials should ensure that:

4. The clerk's file cabinet is securely locked and no other Authority employees have access.
5. User access rights in the computer program are assigned to employees based on their job assignments.

⁷ The rents collected were composed of \$13,316 in checks and \$1,113 in cash. Refer to Appendix B for further information on our sample selection.

⁸ Fees include collections for tenants locking themselves out of their apartment, storage and key replacements.

6. Employees' individual passwords are kept confidential.
7. Someone other than the assistant periodically reviews the audit trail report.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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

City of Glens Falls Housing Authority

Stichman Towers – 23 Jay Street

Glens Falls , New York – 12801

(518) 793-2583

ROBERT J. LANDRY
EXECUTIVE DIRECTOR

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Larose Gardens - Stichman Towers

Cronin High Rise - Earl Towers

SECTION 8 LEASED / HOMEOWNERSHIP /SHELTER PLUS CARE /VASH

March 10 , 2015

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

Dear Sirs:

The City of Glens Falls Housing Authority has received and reviewed the preliminary draft report (2014M-370) recently completed by your Agency. We recently met with your staff and our Board of Commissioners Chairman to review the report and recommendations and to report on corrections already completed and those in progress. We submit below our Corrective Action Plan to your recommendations ;

Tenant Rents / Segregation of Duties :

Various types of rent are now received and recorded by three separate Housing Assistance Representatives (HAR) . Computerized collection receipts are now issued for all collection transactions. The Confidential Assistant to the Executive Director (Assistant) generates a monthly report for each of these receivers of funds and ensures that these records tie out with the corresponding months end bank statements . This allows for management oversight of amounts collected and oversight of worker activity . The Assistant also reconciles these collections against our month end rent roll . Two independent software programs are reconciled against income receipts and then are tied out to our five bank account statements at the end of the month. One HAR has been assigned to the physical collection of the rents. A second HAR is then given the rent payments received and then posts those receipts to the Tenant Accounts Receivable system which generates a bank deposit report . A third HAR counts and compiles the receipts , prepares the bank deposit slips and reconciles the deposit slip against the bank deposit report generated by the second in line HAR. The Assistant is then given the bank deposit report and moneys collected attached to the bank deposit slips . The reports and deposits are reviewed and recounted. The money is deposited on the day of the receipt by the Assistant or assigned to one of the HAR's to deposit. Moneys collected awaiting deposit by the end of the day is locked in a secure desk drawer in the office of the Assistant with key access only by the Assistant or the Executive Director.

Computer Access and Audit Trails : User rights in all areas of our software systems has been reviewed and modified. Users rights are determined by the Assistant and authorized by the Executive Director. Users determine their confidential passwords . Audit access is now limited to the Executive Director or the Assistant in the absence of the Executive Director. Users have no audit access. The Assistant will run a monthly or special audit trail report from the software and meet with the Executive Director to review these reports. The Executive Director will approve these monthly or special audit reports and , if necessary , investigate any discrepancies.

City of Glens Falls Housing Authority

Stichman Towers – 23 Jay Street

Glens Falls , New York – 12801

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ROBERT J. LANDRY
EXECUTIVE DIRECTOR

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SECTION 8 LEASED / HOMEOWNERSHIP / SHELTER PLUS CARE / VASH

Timeliness of Deposits : As mentioned in the section above entitled Tenant Rents / Segregation of Duties, money collected daily is deposited on the day of the receipt by the Assistant or assigned to one of the HAR's to deposit. Money collected awaiting deposit by the end of the day is locked in a secure desk drawer in the office of the Assistant with key access only by the Assistant or the Executive Director.

Our Board and the Office of the Executive Director will adopt written procedures for tenant rents that address segregation of duties, timely deposits , issuance of collection receipts , security of on-site collections prior to depositing , users computer access rights and passwords and review of all audit trail reports by the Executive Director monthly at a minimum .

We found this Audit and Audit Report an excellent review of our overall operation . The recommendations will be immediately implemented , if not already in progress , and future oversights and reviews will be part of our management process. We appreciate the time given by your staff and look forward to working with your Agency in the future. Should you have any questions , please contact my office at your earliest convenience.

Sincerely,

Robert J. Landry
Executive Director

Cc: Chairman Dana Palmer
Board of Commissioners

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 and monitor financial activities. 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.

During the initial assessment, we interviewed Authority officials, performed limited tests of transactions and reviewed pertinent documents such as Authority policies, Board minutes and financial records and reports. 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 or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected tenant rental collections for further audit testing.

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

- We interviewed Authority officials and employees and reviewed Authority policies and various financial records and reports to gain an understanding of the internal controls over tenant rents collected and document any associated effects of deficiencies in those controls.
- We reviewed 45 tenant accounts. We used a random number generator to select our test month (December 2013) and select our sample from the tenant rental reports. We compared the amounts reported on the tenant rental report with the receipts issued if applicable (cash collection), the deposit report and the bank statement to verify if rents collected agreed with the amounts deposited in the bank and if they were deposited in a timely manner. We consider our sample size to be reasonable based on the total of 306 units available for rent.
- We reviewed tenant accounts for April and July 2014 (beginning months of the first two quarters of the 2014-15 fiscal year). For our testing we used the tenant rental report and selected all accounts with rents and fees paid in cash. We then compared the amounts paid from the tenant rental report with the duplicate press-numbered receipts issued, the deposit reports and the bank statements to verify whether the amount collected agreed with the bank and if they were deposited in a timely manner.
- We reviewed the tenant rent receivable report for the last month in our audit period (August 2014). We then verified whether all tenant rents receivable were paid at a later date or were being properly monitored for collection.
- We reviewed the “user privilege list” report from the rental collection software printed by the assistant during our audit fieldwork to verify whether Authority employees had access to the computer program based on their current job duties.

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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