



# Gloversville Housing Authority

## Selected Financial Operations

Report of Examination

Period Covered:

October 1, 2013 — June 30, 2015

2015M-257



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 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 Gloversville Housing Authority, entitled Selected Financial Operations. 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Gloversville Housing Authority (Authority) is located in the City of Gloversville (City) in Fulton County. The Authority was established in March 1963 pursuant to Section 486 of New York State Public Housing Law (Law) to provide low-income housing for qualified individuals in accordance with relevant provisions of the Law and rules and regulations prescribed by the United States Department of Housing and Urban Development (HUD). The Authority's 2014-15 fiscal year operating budget totaled approximately \$2.5 million. These costs were funded mainly by rental income from tenants and HUD subsidies.

The Authority is governed by a Board of Commissioners (Board) that is comprised of seven Commissioners. The City's Mayor appoints five Commissioners and the tenants elect two. 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.

#### **Scope and Objectives**

The objective of our audit were to assess the Authority's internal controls over tenant rents and claims processing for the period October 1, 2013 through June 30, 2015. Our audit addressed the following related questions:

- Did the Board develop and implement adequate internal controls over receipts from tenant rental payments?
- Did the Board conduct a proper audit of claims to ensure that each claim was adequately documented, supported and for legitimate Authority purposes?

#### **Audit Results**

The Board did not adopt adequate policies for tenant rent collections to ensure payments were safeguarded. Incompatible financial duties within the Authority's office were not adequately segregated and the controls designed to mitigate the associated risks were insufficient. However, we found that three clerks' duties could be modified to help segregate the processing of rent collections.

We randomly selected the month of November 2014 within our audit period and reviewed 105 tenant rental payments and related fees during that month totaling \$30,734. Except for minor discrepancies

which we discussed with Authority officials, we found that all tenant rental payments were properly recorded in the accounting system and deposited intact<sup>1</sup> and in a timely manner.

The Board also did not establish policies or procedures to guide staff when processing claims against the Authority. As a result, claims were not audited prior to payment. We reviewed 50 claims totaling \$189,005 to determine whether they had proper supporting documentation and were appropriate Authority expenditures. Although we found that the claims reviewed were proper Authority expenditures, we identified minor deficiencies which we discussed with Authority officials.

### **Comments of Authority Officials**

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.

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<sup>1</sup> An intact deposit is one in which all cash receipts collected are deposited in the same amount and form (i.e., cash, check or money order) as they were collected.

# Introduction

## Background

The Gloversville Housing Authority (Authority) is located in the City of Gloversville (City) in Fulton County. The Authority was established in March 1963 pursuant to Section 486 of New York State Public Housing Law (Law) to provide low-income housing for qualified individuals in accordance with relevant provisions of the Law and rules and regulations prescribed by the United States Department of Housing and Urban Development (HUD).

The Authority's 2014-15 fiscal year operating budget totaled approximately \$2.5 million. These costs were funded mainly by rental income from tenants and HUD subsidies. The Authority has two senior-citizen tower building developments that contain 208 housing units and one low-income family apartment complex with 85 housing units. In addition, the Authority administers approximately 250 Section 8 Housing Choice Vouchers.<sup>2</sup>

The Authority is governed by a Board of Commissioners (Board) that is comprised of seven Commissioners. The City's Mayor appoints five Commissioners and the tenants elect two. The Board is responsible for the general management and control of the Authority's financial affairs.

The Board appoints an Executive Director (Director) who is the Authority's chief executive officer and is responsible for the Authority's day-to-day operations. The Authority's senior account clerk oversees the accounting operations, including the receipt of rental payments from tenants. The Authority also has three account clerks who have various responsibilities, including collecting tenant rents, recording collections in the accounting system, depositing collections, maintaining tenant files and processing tenant recertification applications.

## Objectives

The objectives of our audit were to assess the Authority's internal controls over tenant rents and claims processing. Our audit addressed the following related questions:

- Did the Board develop and implement adequate internal controls over receipts from tenant rental payments?

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<sup>2</sup> The Housing Choice Vouchers program is a federal program that helps low income families, the elderly and persons with disabilities obtain housing in the private market place.

- Did the Board conduct a proper audit of claims to ensure that each claim was adequately documented, supported and for legitimate Authority purposes?

**Scope and  
Methodology**

We examined the Authority’s financial transactions related to tenant rents and claims processing for the period October 1, 2013 through June 30, 2015.

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 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.

The Board did not adopt policies and Authority officials did not implement procedures for processing tenant rent collections to ensure payments were safeguarded. In addition, Authority officials did not segregate the incompatible financial duties performed by the Authority's account clerks. For each of the three housing locations, an account clerk is responsible for collecting tenant rent payments, recording the payments in the computerized accounting system, printing receipts for tenants from the accounting system, preparing deposit tickets, printing a deposit report from the accounting system and depositing the rent payments in the bank.

Each clerk also is responsible for following up on delinquent rent payments, making adjustments to amounts due from tenants, performing annual tenant recertifications<sup>3</sup> and entering new rent amounts in the accounting system. Furthermore, each clerk can modify the data in the accounting system, such as rent collection dates and amounts and rent amounts due, without obtaining prior approval to make the changes. The clerks perform all of these incompatible duties without any supervision.

Although the Authority implemented controls designed to mitigate the risks associated with the clerks' incompatible financial duties, the controls were inadequate. After the clerks deposited rental collections, they gave their deposit reports, copies of the computer-generated rent receipts and bank-validated deposit receipts to the senior account clerk. At the end of each month, the senior account clerk reconciled the bank statements and compared the statements to the information provided by the clerks.

However, because the clerks controlled the entire transaction cycle (collecting, recording and depositing cash receipts) and could enter

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<sup>3</sup> The annual recertification determines a tenant's rent based on current income to calculate updated rent amounts.



any information into the accounting system without independent verification of its accuracy, the senior account clerk's oversight was insufficient to prevent errors or theft from occurring and being detected. Furthermore, the computerized accounting system used by the clerks could not generate an audit log<sup>4</sup> that the senior account clerk could review to identify inappropriate changes made within the system.

We found that the three clerks' duties could be modified to help segregate the processing of rent collections. For example, one clerk could compare rent collections and the deposit reports made by the other two clerks to ensure they agree. Another clerk could prepare the deposit slips for the other two clerks. The third clerk could deposit the rent collections received by the other clerks. These duties could then be rotated periodically among the three clerks.

We judgmentally selected three deposits<sup>5</sup> that contained 105 tenant rental payments and related fees totaling \$30,734.<sup>6</sup> We examined these payments and found that, except for minor discrepancies, which we discussed with Authority officials, all tenant rental payments were properly recorded in the accounting system, were deposited intact<sup>7</sup> and in a timely manner and matched the rental amounts specified in their lease agreements. We also reviewed 26 tenant accounts totaling \$6,130 for which rent had not yet been paid in November 2014 according to the computerized accounting system and found that they were not paid.

Although we found only minor discrepancies, without adequate controls over the rent collection process, the Authority has an increased risk that errors or irregularities could occur and remain undetected.

## Recommendations

The Board should:

1. Adopt written policies and procedures for the collection of tenant rents.
2. Segregate rent collection duties among employees or ensure that Authority officials provide adequate oversight of the process.

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<sup>4</sup> An audit log documents all modifications made within the accounting system.

<sup>5</sup> We selected the November 2014 deposit containing the most cash collected from each of the three buildings. Refer to Appendix B for further information on our sample selection.

<sup>6</sup> The related fees included late fees and maintenance charges.

<sup>7</sup> An intact deposit is one in which all cash receipts collected are deposited in the same amount and form (i.e., cash, check or money order) as they were collected.

## Claims Processing

The audit and approval of claims<sup>8</sup> is a critical element of a governing board's duties and responsibilities. The Board is responsible for ensuring that every claim is subject to an independent, thorough and deliberate review and should document its approval, by resolution, in the Board minutes. A proper audit ensures that each claim is sufficiently documented, itemized, accompanied by an invoice or receipt and a proper and valid Authority expenditure.

The Board did not audit or approve claims prior to payment. The senior account clerk prepared claims and related documentation, then printed checks for payment and provided them to the Director and the Chairman of the Board (Chairman) for their signatures.<sup>9</sup> As a part of the check-signing process, the Director and Chairman did not review claim documentation unless they had a question about a payment and requested supporting documentation.

During our audit period, the Authority paid 1,422 cash disbursements<sup>10</sup> totaling approximately \$3.5 million for goods or services. We randomly selected 45 claims totaling \$185,264 and judgmentally selected another five claims totaling \$3,741.<sup>11</sup> We reviewed the claims and found that, except for minor deficiencies which we discussed with Authority officials, all 50 claims were proper Authority expenditures and contained appropriate supporting documentation.

Although we did not find any significant discrepancies, without an effective claims audit process, the Authority has an increased risk that it could make inappropriate payments to ineligible parties for improper purchases, pay for services not rendered or goods not received or be overcharged for goods and services.

### Recommendation

The Board should:

3. Perform a deliberate and thorough audit of all Authority claims prior to payment or formally appoint someone who is independent of the purchasing process as a claims auditor or a committee to fulfill the claims audit function.

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<sup>8</sup> Claims are bills or invoices submitted by vendors requesting payment for goods and services provided.

<sup>9</sup> The Board authorized the Director and Chairman to sign checks, and both signatures are required on Authority checks.

<sup>10</sup> Each disbursement represents a claim against the Authority.

<sup>11</sup> Refer to Appendix B for more information on our sample selection.

## **APPENDIX A**

### **RESPONSE FROM AUTHORITY OFFICIALS**

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

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ANTHONY A. FERRARO  
Chairperson

DAVID SEWARD, ESQ.  
Authority Counsel



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**December 31, 2015**

NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, New York 12801  
Attn. [REDACTED]

**RE:** Response to Draft Audit Report (Selected Financial Operations) – 2015M-257

Dear [REDACTED]

On December 4, 2015 an exit discussion was conducted between your office and Housing Authority officials to review the preliminary Draft Audit Report (Selected Financial Operations). Prior to the December meeting, the Gloversville Housing Authority received a written Draft Audit Report prepared by your staff for period October 1, 2013 – June 30, 2015.

This letter is to confirm that the Housing Authority has reviewed the preliminary Draft Audit Report and finds all the information in it to be complete and accurate. Moreover, the Housing Authority agrees with the audit results and recommendations and is prepared to submit a written Corrective Action Plan within 90-days of this letter.

Thank you for giving us the opportunity to respond to the Draft Audit Report.

Sincerely,

Timothy M. Mattice,  
Executive Director

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Authority officials to gain an understanding of the rental payment receipt process and claims processing procedures.
- We used a random sampling tool to select our test month (November 2014). We then selected the deposit recorded in the accounting system that contained the highest amount of cash from each of the three building developments for our test month. Within these deposits were 105 tenant rental payments and related fees totaling \$30,734. The related fees included late fees and maintenance charges. We reviewed the 105 tenant cash receipts and traced the recorded information from the accounting system to cash receipts, deposit tickets and bank statements to determine whether the cash receipts were properly recorded and deposited intact and in a timely manner.
- Using the information from our sample of 105 tenant cash receipts, which included collected rents for 101 tenant accounts, we compared all 101 collected tenant rents recorded in the accounting system to tenant rent rolls and tenants' lease agreements to determine whether the rent amounts agreed.
- We reviewed the November 2014 delinquency reports and cash receipt reports for each building development to verify whether tenants did not make payments for the delinquent balances shown as due on the reports.
- Because the Authority did not have a system in place to identify each claim, we obtained a check register report for our audit period (excluding all voided checks) and sequentially numbered each disbursement to identify the population of 1,422 claims. Each disbursement represented a claim against the Authority. We used a random number generator to select a random sample of 45 claims totaling \$185,264. We also selected a judgmental sample of five claims for administrative expenses totaling \$3,741 from our audit period. We considered administrative claims such as travel reimbursements to have higher inherent risk than the rest of the claims against the Authority. We examined each claim to determine whether it had adequate supporting documentation, such as an itemized invoice or receipt, was audited by the Board and was a valid Authority expenditure.

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.

## APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller  
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