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COMPTROLLER



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STATE OF NEW YORK
OFFICE OF STATE COMPTROLLER

June 2, 2004

Ms. Judith A. Calogero
Chairperson
Housing Trust Fund Corporation
38-40 State Street
Albany, New York 12205

Re: Report 2003-Q-7

Dear Ms. Calogero:

To assist the Housing Trust Fund Corporation (Corporation) in managing its financial operations, we have reviewed the Corporation's policies and procedures governing basic financial operations to determine whether they provide a sufficient level of internal controls. Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), revised in 1999, the Corporation's management is responsible for maintaining effective internal controls over operations. State agencies and authorities must annually certify their compliance with the Act to the Division of the Budget.

Background

Chapter 67 of the Laws of 1985 created the Housing Trust Fund Corporation (Corporation), a public benefit corporation that administers the Low-Income Housing Trust Fund Program (HTF) to help meet the critical need for decent, affordable housing opportunities for people of low income. The Corporation, under the direction of a Board of Directors chaired by the Commissioner of the Division of Housing and Community Renewal (DHCR), receives staff and administrative support from DHCR.

The Corporation provides funding to eligible applicants to construct low-income housing, to rehabilitate vacant or under-utilized residential property (or portions of a property), or to convert vacant non-residential property to residential use for occupancy by low-income homesteaders, tenants, tenant-cooperators, or condominium owners. The Corporation can also provide seed funding to eligible non-profit applicants who need financial assistance in developing a full HTF project application. The Corporation's financial statements for the fiscal year ended March 31, 2003 showed over \$627 million in revenues, more than \$575 million of this in Federal aid, and \$612 million in expenditures, \$566 million of which was for Federally sponsored programs.

Review Scope and Objectives

The objectives of our review were to determine whether the Corporation has established written policies and procedures that provide an adequate level of internal control over its basic financial operations and to determine whether Corporation employees follow those policies and procedures. Our review covered the period April 1, 2002 through March 11, 2004.

To accomplish our objectives, we interviewed appropriate Corporation officials and reviewed applicable policies and procedures governing the following significant financial operations: revenue and collections; cash and investments; payroll; procurement and contracting; equipment and asset management; budgeting and expenditure control; and accounting and information systems. We interviewed Corporation staff responsible for these financial operations and performed limited compliance testing to provide assurance that Corporation employees are following established policies and procedures.

We conducted our review in accordance with generally accepted government auditing standards. A review is substantially less in scope than an audit, the objective of which would be the expression of an opinion on the Corporation's internal controls over financial operations. Accordingly, we do not express such an opinion.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of who have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

Results of Review

Based on our review, summarized in the attached Table I, nothing came to our attention that caused us to believe that the Corporation's internal controls over financial operations are not sufficient, in all material respects, in conformity with the Act. However, we noted the following instances in which the Corporation could either improve or strengthen the adherence to policies and procedures. Corporation officials stated that they are currently reviewing their overall operations and will seek to formalize, establish, improve, or update policies and procedures over several areas.

- The Corporation does not have a formal billing system for its mortgages. Clients sign promissory notes and, in cases where an excess payment calculation is necessary, Corporation personnel verify the information contained in this document. However, if it does not receive a reason for non-payment, the Corporation does not have a method to follow up with the client. Other than mortgages, the Corporation's business does not require

a billing system. Corporation officials state they are in the process of developing a system for billing mortgages. We recommend that the Corporation develop this system for billing mortgage payments promptly.

- Although the Corporation can track mortgage payments to ensure they are made timely, it neither creates an accounts receivable aging schedule nor actively pursues delinquent accounts. Recognizing that these procedures are necessary to facilitate prompt collections, Corporation officials stated that they are currently in the process of developing a system for aging accounts and following up on overdue payments. We recommend that the Corporation continue to develop an effective accounts receivable system.
- We found that one employee improperly accrued compensatory overtime at time and one-half when he should have accrued the compensatory overtime at straight time. During our review period, we identified two such occasions; each had supervisory approval. Because the situations were infrequent, we attributed them to human error, rather than overall system weakness. However, we recommend that the Corporation's management monitor time accruals more carefully to prevent or detect future errors.

Major contributors to this review were John Buyce, Joel Biederman, Greg Petschke, Mike Durkin and Stephen Capozza.

We welcome your comments in response to this review. We wish to express our appreciation to the management and staff of the Corporation for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert Barnes, Division of Budget

**HOUSING TRUST FUND CORPORATION
REVIEW OF CONTROLS OVER FINANCIAL OPERATIONS**

A colored “traffic light” legend is included in the table below to assist management in focusing an appropriate level of attention on the issues identified in the Corporation Activities and Comptroller’s Comments sections of the Review Findings.

Legend:

	Activities/Comments contain matters that should be of immediate concern to management.		Activities/Comments contain matters which management should consider correcting.		Activities/Comments do not contain issues that require immediate management consideration.
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Review Findings: As part of our review, we asked Corporation officials a series of questions and reviewed selected Corporation records. Our review questions, a summary of the Corporation’s activities in each area, and our comments are all summarized below.

	QUESTION	CORPORATION ACTIVITIES	COMPTROLLER’S COMMENTS
Revenues:			
	Do the Corporation’s policies and procedures provide assurance that revenues are billed timely and accurately and are recorded properly in the accounting records?	The Corporation does not have a formal billing system for its mortgages. Clients sign promissory notes and, in cases where an excess payment calculation is necessary, Corporation personnel verify the information contained in this document. However, if it does not receive a reason for non-payment, the Corporation does not have a method to follow up with the client. Other than mortgages, the Corporation’s business does not require a billing system.	Corporation officials state they are in the process of developing a system for billing mortgages. We recommend that this be done as soon as possible.
	Do the Corporation’s policies and procedures provide assurance that revenues are being collected timely?	Although the Corporation can track mortgage payments to ensure they are made timely, it neither creates an accounts receivable aging schedule nor actively pursues delinquent accounts.	Corporation officials stated that they are currently in the process of developing a system for aging accounts and following up on overdue payments. We recommend that the Corporation continue to develop an effective accounts receivable system.

	QUESTION	CORPORATION ACTIVITIES	COMPTROLLER'S COMMENTS
Cash:			
	Do the Corporation's policies and procedures provide assurance that cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts?	All receipts are restrictively endorsed when received and are remitted to the Division of the Treasury the next business day. While receipts are at the Corporation, they are kept locked in a secure location. Access to the receipts is restricted to the appropriate finance personnel.	Our review indicated that the Corporation complies with its policies and procedures.
	Do the Corporation's policies and procedures provide assurance that cash disbursements are authorized and recorded properly?	The Corporation has detailed written policies and procedures governing the cash disbursement process. These policies and procedures provide assurance that cash disbursements are properly authorized and recorded.	Our review indicated that disbursements are made in accordance with the Corporation's policies and procedures.
Payroll:			
	Do the Corporation's policies and procedures provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?	The Corporation has written policies and procedures governing the payroll process. These policies and procedures provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly.	We identified two cases of an employee receiving and recording incorrect compensatory overtime accruals on his leave accrual records. In both cases, the employee's supervisor approved the compensatory overtime accrual. Because the situations were infrequent, we attributed them to human error, rather than overall system weakness. However, we recommend that the Corporation's management monitor time accruals more carefully to prevent or detect future errors.
	Do the Corporation's policies and procedures provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?	The Corporation has written policies and procedures that provide assurance that all payroll changes are processed accurately and timely.	Our review indicated that the Corporation's policies and procedures are working as intended.

	QUESTION	CORPORATION ACTIVITIES	COMPTROLLER'S COMMENTS
Purchasing:			
	Do the Corporation's policies and procedures provide assurance that purchases are authorized, received, and recorded properly?	The Corporation has written policies and procedures that provide assurance that purchases are authorized, received, and recorded properly. All purchases are initiated by managers and require written approval from upper management and the accounting office. Appropriate staff record purchases and merchandise receipts in the accounting records.	Our review indicated that the Corporation's policies and procedures are working as intended.
	Do the Corporation's policies and procedures provide assurance that purchases are reasonable and necessary and made in an economical and efficient manner?	The Corporation has written procedures for initiating purchases at various dollar thresholds. These procedures provide assurance that purchases are reasonable and necessary and are made in an economical manner.	Our review indicated that the Corporation is following its written procedures for purchasing goods and services.
Equipment:			
	Do the Corporation's policies and procedures provide assurance that equipment acquisitions and dispositions are authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?	The Corporation has procedures in place that provide assurance that equipment acquisitions and dispositions are authorized and recorded properly and that a comprehensive equipment inventory is maintained. Equipment purchases require a formal request and management approval. The Corporation's Small Cities group (responsible for 95 percent of the Corporation's equipment) maintains inventory records for the items it purchases.	We were able to identify all equipment items in our sample. Each item had a Small Cities inventory tag and was in the appropriate location.
	Do the Corporation's policies and procedures provide assurance that equipment is secured properly and used as intended?	The Corporation's policies and procedures provide assurance that equipment is secured properly and used as intended. The Small Cities group locks all equipment up during non-business hours and access to the office during these hours is strictly limited to Corporation management. The group also locks up portable items when they are not in use.	We found the Corporation's security and use procedures were in effect.

	QUESTION	CORPORATION ACTIVITIES	COMPTROLLER'S COMMENTS
Budget Process:			
	<p>Do the Corporation's policies and procedures provide assurance that the Corporation's annual budget is prepared accurately and timely?</p>	<p>The Corporation is allocated a fixed amount through the State's Capital Projects Budget. This allocation flows through the Division of Housing and Community Renewal (DHCR).</p>	<p>DHCR handles the Corporation's formal budget request. Because the allocation is stable, we conclude that the budget is prepared properly.</p>
	<p>Do the Corporation's policies and procedures provide assurance that actual operating results are tracked against budgeted estimates and that appropriate revisions to current and future budgets are made as warranted by these operating results?</p>	<p>The Corporation has policies and procedures to provide assurance that actual operating results are tracked against budgeted estimates. The Corporation maintains a monthly spreadsheet that details appropriations by program. The Corporation sends this spreadsheet to DHCR's budget analyst.</p>	<p>Expenditures as of December 31, 2003 were within the framework of the total capital budget figure of \$29 million for the current fiscal year.</p>
Accounting and Information Systems:			
	<p>Do the Corporation's accounting and information systems provide assurance that management will have access to timely, accurate and relevant information?</p>	<p>The Corporation's accounting and information systems provide assurance that management will have access to timely, accurate and relevant information. The Corporation has a computer-based accounting system that allows them to assign rights based on the employee's function. The system requires users to sign in and change passwords on a regular basis. Management can monitor employees' work, ensuring that assignments are completed on an accurate and timely basis.</p>	<p>We observed Corporation employees as they signed onto the system. We verified that the system requires passwords in order to be accessed. The system also allows management to properly monitor employee performance.</p>
	<p>Do the Corporation's policies and procedures provide assurance that the accounting information system is secure and that the accounting information is recoverable in case of system failure?</p>	<p>The Corporation's policies and procedures provide assurance that the accounting and information systems are secure and that the accounting information is recoverable in case of system failure. The Corporation backs up all of its servers and stores the backups with State Archives and Records Administration. Accounting data is backed up daily and stored offsite at a State designated area.</p>	<p>Our review indicated that the Corporation's accounting and information systems are secure and backup disks can be brought live, if necessary.</p>